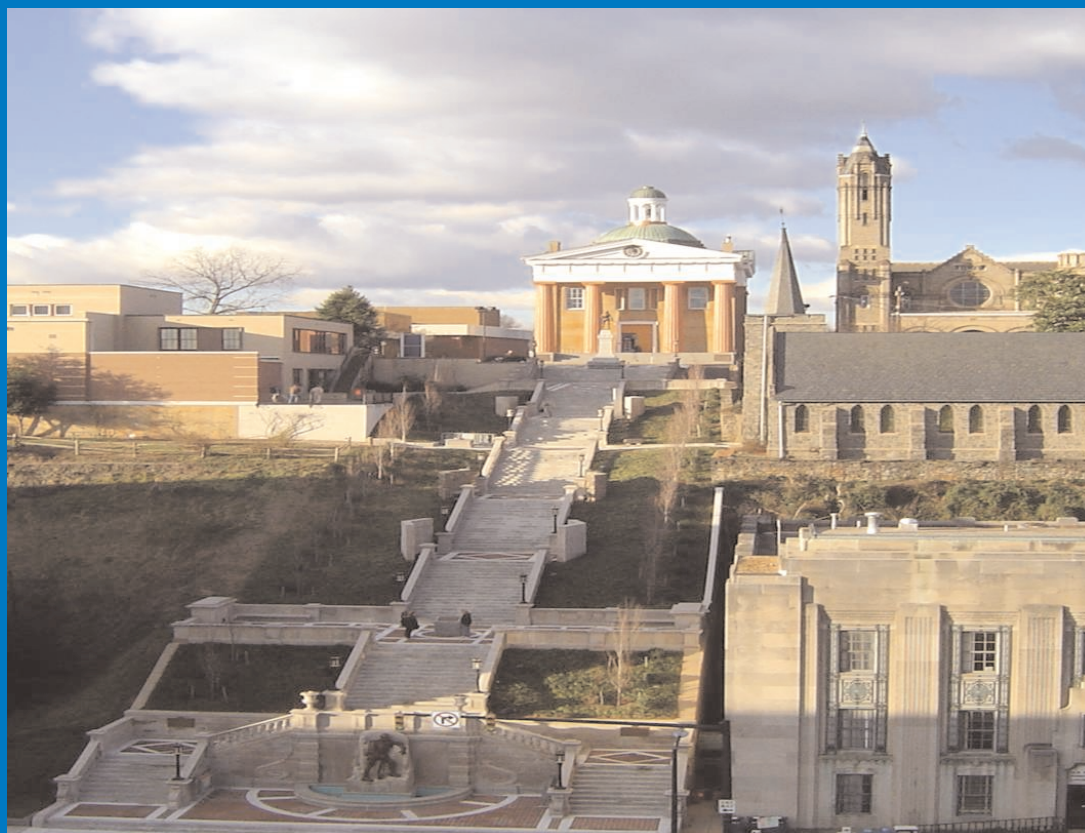


CITY OF
LYNCHBURG, VIRGINIA



Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2006

**CITY OF
LYNCHBURG, VIRGINIA**

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2006

**CITY OF LYNCHBURG,
VIRGINIA**

Prepared by:
Financial Services

CITY OF LYNCHBURG, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Letter of Transmittal	i - xi
Directory of Principal Officials.....	xii
Organizational Chart.....	xiii
Certificate of Achievement for Excellence in Financial Reporting.....	xiv

FINANCIAL SECTION

Independent Auditor's Report.....	1-2
--	------------

Management's Discussion and Analysis	3
---	----------

Basic Financial Statements

Government-wide Financial Statements:

Exhibit 1 Statement of Net Assets	4
Exhibit 2 Statement of Activities.....	5

Fund Financial Statements:

Exhibit 3 Balance Sheet – Governmental Funds.....	6
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	7
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	9
Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	10
Exhibit 8 Statement of Net Assets – Proprietary Funds.....	11
Exhibit 9 Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	12
Exhibit 10 Statement of Cash Flows – Proprietary Funds	13-14
Exhibit 11 Statement of Fiduciary Net Assets – Fiduciary Funds	15

Notes to Financial Statements	16-44
-------------------------------------	-------

Required Supplemental Information

Exhibit 12 Schedule of Funding Progress for Defined Benefit Pension Plan.....	45
---	----

Other Supplemental Information

Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds	46
Exhibit A-1 Combining Balance Sheet – Nonmajor Governmental Funds.....	47
Exhibit A-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	48

TABLE OF CONTENTS
(Continued)

FINANCIAL SECTION
(Continued)

	Page
Nonmajor Special Revenue Funds	
Exhibit B-1 Combining Balance Sheet	49-50
Exhibit B-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	51-52
Nonmajor Capital Projects Funds	
Exhibit C-1 Combining Balance Sheet	53
Exhibit C-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	54
Agency Funds:	
Exhibit D-1 Combining Statement of Fiduciary Net Assets	55
Exhibit D-2 Combining Statement of Changes in Fiduciary Assets and Liabilities	56
Discretely Presented Component Unit – Lynchburg City Schools	57
Exhibit E-1 Combining Balance Sheet	58
Exhibit E-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	59
School Operating Fund:	
Exhibit E-3 Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) – Budget and Actual	60
Exhibit E-4 Agency Fund.....	61
Discretely Presented Component Units – Other	
Exhibit F-1 Combining Statement of Net Assets.....	62
Exhibit F-2 Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	63
Exhibit F-3 Combining Statement of Cash Flows	64
Supplemental Schedules	
Schedule 1 Schedule of Expenditures of Federal Awards	65-66
Notes to Schedule of Expenditures of Federal Awards	67-68
Schedule 2 Schedule of Passenger Facility Charges	69
Schedule 3 Schedule of Expenditures of Passenger Facility Charges.....	70

TABLE OF CONTENTS
(Continued)

STATISTICAL SECTION

	Page
Miscellaneous Statistical Data	71-75
Table 1 Net Assets by Component, Last Five Fiscal Years	76
Table 2 Changes in Net Assets, Last Five Fiscal Years	77-78
Table 3 Program Revenues by Function/Program, Last Five Fiscal Years	79
Table 4 Fund Balances, Governmental Funds, Last Ten Fiscal Years	80
Table 5 Changes in Fund Balances of Governmental Funds, Last Ten Fiscal Years	81
Table 6 Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund	82
Table 7 Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances – School Fund	83
Table 8 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets – Solid Waste Management Fund	84
Table 9 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets – Water Fund	85
Table 10 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets – Sewer Fund	86
Table 11 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets – Airport Fund	87
Table 12 Tax Revenues by Source, Governmental Funds, Last Ten Fiscal Years	88
Table 13 Assessed Value and Estimated Actual Value of Taxable Real Property, Last Ten Fiscal Years	89
Table 14 Assessed Value of All Taxable Property, Last Ten Fiscal Years	90
Table 15 Principal Property Taxpayers, Current Year and Nine Years Ago	91
Table 16 Property Tax Levies and Collections, Last Ten Fiscal Years	92
Table 17 Property Tax Rates, Last Ten Fiscal Years	93
Table 18 Ratios of Outstanding Debt by Type, Last Ten Fiscal Years	94
Table 19 Ratios of Net General Bonded Debt Outstanding, Last Ten Fiscal Years	95
Table 20 Legal Debt Margin Information, Last Ten Fiscal Years	96
Table 21 Pledged Revenue Coverage, Last Six Fiscal Years	97
Table 22 Demographic and Economic Statistics, Last Ten Calendar Years	98
Table 23 Principal Employers, Current Year and Nine Years Ago	99
Table 24 Full-Time Equivalent City Governmental Employees by Function/Program Last Eight Fiscal Years	100
Table 25 Operating Indicators by Function/Program, Last Ten Fiscal Years	101
Table 26 Capital Assets Statistics by Function/Program – Last Ten Fiscal Years	102
Table 27 Lynchburg City Schools – School Buildings	103
Table 28 Lynchburg City Schools – Student Enrollment, Employees, and Schools by Fiscal Year	104

TABLE OF CONTENTS
(Continued)

COMPLIANCE SECTION

	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	105-106
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	107-108
Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Controls over Compliance in Accordance with the Passenger Facility Charge Program Audit Guide.....	109-110
Independent Auditor's Comments on Resolution of Prior Year Audit Findings.....	111
Summary of Compliance Matters	112
Schedule of Findings and Questioned Costs	113-118
Summary Schedule of Prior Audit Findings	119

INTRODUCTORY SECTION



The City of Lynchburg, Virginia

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OFFICE OF THE
CITY MANAGER

November 6, 2006

The Honorable Mayor and Members of the City Council
City of Lynchburg, Virginia

The Comprehensive Annual Financial Report (CAFR) for the City of Lynchburg, Virginia, (City) for the year ended June 30, 2006, is hereby submitted in accordance with the *City Code* and state statutes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows, as applicable, of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section, which is unaudited, includes this Letter of Transmittal, the City's organization chart, and a list of principal officials. The Financial Section includes: Management's Discussion and Analysis (MD&A), basic financial statements consisting of government-wide and fund financial statements, and the combining and individual fund financial statements and schedules. The information presented in the MD&A should be considered in conjunction with additional information provided in this Letter of Transmittal. The Statistical Section, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis. The Compliance Section includes the auditor's reports on grant compliance and testing of internal controls in conformity with Generally Accepted Auditing Standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; requirements of the Passenger Facility Charge Audit Guide for Public Agencies; and requirements of the Auditor of Public Accounts of the Commonwealth of Virginia.

The financial reporting entity includes all funds of the primary government (i.e., the City of Lynchburg), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of municipal services

including general administration, judicial functions, police and fire protection, parks and recreation, libraries, museums, health, juvenile and social services, maintenance of streets and highways, economic development, and community planning. The City also owns and operates water and sewer systems, a municipal landfill, and a regional airport. The City's discretely presented component units, Lynchburg City Schools (Schools), Business Development Centre, Inc., and Greater Lynchburg Transit Company, provide public education, various small business services, and public transportation, respectively, to the citizens of the City. These component units are included in separate columns in the City's government-wide financial statements to emphasize that they are legally separate from the City and to differentiate their financial position and results of operations from that of the City. Each of these component units' governing bodies is appointed by City Council. Excluded are the financial statements of the Lynchburg Redevelopment and Housing Authority and the Industrial Development Authority of the City of Lynchburg. These organizations are associated with the City, but are legally separate entities, which operate with considerable autonomy outside the direct control of City Council and for which the City is not financially accountable. Also, excluded are the financial statements of the Blue Ridge Regional Jail Authority and the Central Virginia Community Services Board, which are jointly governed organizations. Additional information regarding the City's financial status can be found in the MD&A section of the CAFR.

Local Economic Condition and Outlook

Approximately 120 miles west of the state capital and midway between the cities of New York and Atlanta, Lynchburg is an important commercial center for a four-county region. The City benefits from an economy that has been relatively stable and remains diversified among the manufacturing, service, technology, and trade sectors.

The City of Lynchburg has an aggressive economic development program that is committed to creating jobs for its citizens and generating new sources of tax revenue by strengthening and diversifying the local economy through the attraction of new businesses and the retention and expansion of existing businesses. This commitment, the strategic location of the City, a strong workforce, a moderate climate, and desirable available real property make Lynchburg an attractive location for an ever-increasing mix of businesses.

The City, through the Lynchburg Industrial Development Authority (LIDA), has a program of local economic development incentives designed to enhance the City's competitiveness for new industry and business and to support the expansion of existing basic employers. The performance-based incentives provide for, but are not limited to, cash grants, consideration of site cost reduction, site preparation costs, leased facilities, public infrastructure, and industrial revenue bonds. New and existing businesses must satisfy certain criteria for amounts of new taxable capital investment and/or increased full-time job equivalents to be entitled to locally funded incentives. The program is designed also to provide matching funds to State incentives. Since inception of the program in 1994 and through June 30, 2006, a total of \$12.9 million in local economic development incentives has been awarded. The LIDA owns and manages two industrial parks. The Lynchburg Center for Industry is approximately 92% occupied with 13 acres of 170 total acres remaining for development; and the Lynchpin Industrial Center is approximately 42% occupied with 374 acres of 649 total acres remaining for development. The City, in partnership with Campbell County, is also developing an Airport Commerce Park of 252 total acres adjacent to Lynchburg Regional Airport.

The City also provides support to the Business Development Centre, Inc., which was established to help small start-up businesses with one-stop support services. The Centre provides counseling, advising and training services as well as office or industrial incubator space at the facility. Additionally, there are loan programs administered by the Centre that are available to finance eligible small businesses.

The City understands the importance of creating an environment that is business friendly and is working hard to improve services to the business community while continually searching for innovative ways to assist businesses.

The Virginia Enterprise Zone Program, administered locally by the Office of Economic Development (OED), offers special state and local incentives to businesses and is designed to encourage job creation and investment within designated zones. Lynchburg has two Enterprise zones—Downtown, renewed in 2004, and Lynchpin, established in 1996.

In March 2002, Lynchburg City Council approved a Technology Zone Ordinance. The Commonwealth of Virginia allows cities, counties, and towns to establish, by ordinance, one or more technology zones to attract growth in targeted industries. Qualified businesses locating or expanding in such a zone may receive local permit and user fee waivers and local tax incentives. The City established two Technology Zones—Downtown and Lynchpin.

The City continues to market for new businesses, particularly in the downtown and industrial parks, which are designated as Enterprise Zones and Technology Zones. Numerous business owners have taken advantage of the benefits of these zones. The Enterprise and Technology Zones overlap, allowing qualifying businesses the choice of which program to apply for in the City's designated development areas.

Retail businesses, stores, and restaurants continue to thrive in the Route 29 (Wards Road) corridor, which remains the regional retail and restaurant hub serving Lynchburg and the four surrounding counties. The significant growth at nearby Liberty University continues to have a positive impact on retail and restaurant sales in this corridor. Retail development is now spilling over into Campbell County with the construction of a Kohl's and an Old Navy in the Wards Crossing West shopping center. Although the City will not receive any tax revenue from these businesses, their proximity to retailers located in the City should help the area to remain a magnet for shoppers and may recapture some of the consumer leakage to other areas.

In recognition of the shared commitment and belief that economic growth in any of the region's communities benefits the entire region, business, government, and community leaders of the City and surrounding jurisdictions continue to participate in regional activities. The Region 2000 Partnership is an umbrella organization that includes the Local Government Council, the Economic Development Council, the Technology Council, and the Workforce Investment Board and Career Center. Supported through voluntary contributions from participating businesses, organizations, and jurisdictions that contribute on a per capita basis, the Region 2000 Partnership will continue to combine public and private sector interests to support ongoing local, state, national, and international programs in central Virginia.

The City experienced limited growth in the industrial, commercial, technology, and retail sectors during FY 2006. The Office of Economic Development assisted with a total private investment of \$54.05 million involving the creation of 174 new jobs; incentives to these projects totaled \$1.08 million. A summary of major economic additions and expansions follows:

- Areva (Framatome) expanded their Mill Ridge facility with a \$5 million investment, which will bring 130 new engineering jobs to the City. Included in the funding is a \$125,000 cash incentive from the Lynchburg Industrial Development Authority (LIDA) to match \$125,000 from the State.
- Central Virginia Imaging is investing an additional \$2.7 million in building renovations and MRI and CT scanners, which will result in the addition of 6 new healthcare jobs, using a \$27,000 cash incentive from LIDA.
- R R Donnelley is adding a new press with an investment of \$29.3 million, which will add 38 new jobs, using a \$586,000 cash incentive from LIDA to match \$500,000 from the State.

- The News and Advance is adding a new press with an investment of \$17.05 million, using a \$341,000 cash incentive from LIDA.

While maintaining its role as an employment and commercial center for a four-county metropolitan area with a population of about 228,600, Lynchburg has dealt effectively with many of the challenges that face economies historically focused on manufacturing. In addition to a number of manufacturing and retail firms, the city also contains a major medical center and several colleges. Centra Health serves the medical needs of a broad section of Central Virginia with two hospitals, Virginia Baptist and Lynchburg General, and associated facilities. During the year, construction continued on a \$69 million, five-story, 108-bed addition to Lynchburg General. Construction also started on a 75,000 square foot regional outpatient cancer treatment center. Liberty University continues its rapid expansion with nearly 10,000 students and 3,000 faculty and staff. In addition to its new law school, the University plans to start an engineering degree program. Lynchburg College and Central Virginia Community College continue their modest growth in facilities and enrollment. Three other colleges serve the region.

Major Initiatives and Accomplishments

Comprehensive Plan

In September 2002, City Council approved a new Comprehensive Plan (Plan). As adopted, the Plan provides the City with a framework for consistent decision-making in the areas of land use, public facilities and utilities, resource protection, housing, transportation, economic development, and capital improvements. Since the adoption of the Plan, City Council has adopted the Tyreeanna/Pleasant Valley Neighborhood Plan; a plan for the redevelopment of the Midtown area, including the Plaza shopping center; and a master plan for the redevelopment of the Fifth Street Corridor, an historic location of African-American business enterprise. Significant revisions to the sign and landscaping ordinances have also been adopted with the goal of improving the appearance of the City. Additionally, the City worked with neighboring counties on the development of a regional greenways and blueways plan that will incorporate the City's greenways into a regional system. Throughout the year, Lynchburg and Region 2000 worked on a project to tie transportation and land use decisions more closely together.

Downtown and Riverfront Development/Redevelopment

The City continued its fifth year of implementing elements of the Downtown/Riverfront Master Plan, adopted in March 2001. Sasaki & Associates and Economics Research Associates developed the twenty-year plan encompassing a sixty-block area. Implementation continues to focus on four areas: infrastructure/public space improvements, culture and entertainment, commercial development, and government projects.

The goal of the infrastructure/public space improvements is to attract more activity and private development into the downtown area. The public investment for projects completed or underway totals nearly \$6 million. Phase One of the infrastructure improvements was completed during FY 2005 and included streetscape improvements in the Ninth Street Corridor (the major north-south avenue through downtown) and adjoining side streets. The improvements consisted of new stone and brick sidewalks, street trees, historic lampposts, benches, and other amenities. The Ninth Street corridor improvements also included a major Combined Sewer Overflow (CSO) project. Four blocks and the famous Monument Terrace grand stairway were completed during FY 2005. Also completed were the initial components of the Riverfront Park. Improvements included the transformation of a former railroad yard to a large lawn for festivals and light sports, complimented by street trees along a Jefferson Street promenade. Phase Two of the Riverfront public space improvements began in 2006 and includes construction of the Depot Plaza project at the western edge of the Riverfront Park. This project is expected to be completed in February 2007.

Another important initiative is the update of the Downtown and Riverfront Master Plan (the “Sasaki Plan”) that was adopted in 2001. The Master Plan Update and Implementation Schedule were completed by Nelson-Byrd-Woltz Landscape Architects in August 2006 and support the original Sasaki Plan work. The Update identifies several new projects, by priority, and includes construction cost estimates. Many of these new projects are being coordinated with private sector development adjacent to Jefferson and Commerce Streets.

Over the past five years, a number of cultural projects have opened with much success. These projects include the Amazement Square Children’s Museum, the Renaissance Theater, the Dance Theatre of Lynchburg, Riverviews Artspace, and the first phase of the Academy of Fine Arts. Complimenting the Downtown revitalization efforts is the RiverWalk. The RiverWalk is one of the most popular sections of the James River Heritage Trail. This 3.5 mile paved trail begins downtown on Jefferson Street, just past the eastern end of the Blackwater Creek Bikeway/trail system and the Point of Honor Trail, moves eastward along the waterfront (passing Amazement Square and Riverfront Park), and crosses onto Percival’s Island before continuing into Amherst County. Recreational opportunities along this section of the James River Heritage Trail are diverse and include walking, biking, jogging, and fishing while providing expansive riverfront views. An additional section of Blackwater Creek trail system, which joins the refurbished Kemper Street Train Station to the other trails, was completed in FY 2006.

Private developments include new and expanded restaurants, stores, and offices. In addition, a new lodging, dining, and meeting facility, the BluffWalk Center, began construction in 2003. It will include a boutique hotel with forty guestrooms, a conference center, a high-end restaurant, and a microbrewery in two renovated former shoe factory buildings. Completion is expected in the spring of 2007. Several new loft apartment housing projects began construction in FY 2006. One project includes thirty units and another includes sixty-seven units plus retail. The latter, City Market Lofts, is located adjacent to the City’s Community Market, further enhancing the historic market and adding more “critical mass” in specialized retail for downtown (i.e., crafts and antiques). The project will include 12,500 square feet of retail/office space and, in addition to rental lofts (to be converted to condominiums after the utilization of tax credits), will provide temporary housing for individuals attending classes at the adjacent Criminal Justice Academy.

Also located downtown, the Old Courthouse Museum’s \$2 million restoration was completed in early FY 2005. This project was managed through a limited partnership, allowing the use of historic tax credits to offset a portion of the cost. During the current year, plans were developed for placing exhibits and some office space back in the building. In the meantime, the building was opened for limited public gatherings.

Midtown and Fifth Street Corridor

On October 11, 2005, City Council approved an amendment to the City’s Comprehensive Plan to incorporate the Midtown Area Plan. The area referred to as Midtown includes a number of key anchors such as E. C. Glass High School, Lynchburg General Hospital, Miller Park, Lynchburg College, and the main branch of the Public Library, which is located in one of the City’s first “shopping centers,” the Plaza. Midtown is also in the geographic center of the City, contains well-established neighborhoods, has significant business development, and is connected by major arterial roads to the rest of the City. Developed through extensive research, analysis, and public participation, the Midtown Area Plan synthesizes community ideas and depicts an idealized build-out for Midtown. Cornerstone ideas of the Midtown Plan include neighborhood preservation, the development of great streets with pedestrian amenities, and the connection of the Midtown area to the rest of the City. The plan includes policy recommendations, regulatory changes, public-private partnerships, neighborhood revitalization mechanisms, economic development goals, and business recruitment and retention strategies for implementation. The Fifth Street Corridor Plan’s purpose is to provide a vision and a blueprint for the revitalization of the area of Fifth Street between Main Street and the Martin Luther King, Jr. Memorial Bridge. The primary focus is the section encompassing two blocks on either side of Fifth Street, although

there is recognition that the surrounding neighborhoods of College Hill, Garland Hill, and Tinbridge Hill, are very important to the corridor's revitalization. Fifth Street provides an important link between the Downtown/Riverfront and Midtown areas of the City. In order for the corridor to succeed, it must serve the needs of the residents and be an attractive gateway to both Downtown and Midtown. The major efforts proposed to revitalize the corridor will be in the form of streetscape improvements creating a pedestrian friendly environment and encouraging business development. The streetscape improvements include wider sidewalks, the addition of street trees and on-street parking, and a modern roundabout at the intersection of Fifth and Federal Streets. The Fifth Street Corridor Plan was approved by the Planning Commission in April 2006 and by City Council in May 2006.

Combined Sewer Overflow (CSO)

In August 1994 the Virginia Department of Environmental Quality (DEQ) issued the City a discharge permit and a special consent order which established a compliance schedule and project priorities for implementation of a Combined Sewer Overflow (CSO) Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. Starting July 1, 1993 through June 30, 2006, the City has appropriated over \$118,500,000 for CSO control and abatement projects. This funding has resulted in the closing of 99 of the 132 CSO outfalls with more than a 77% reduction in CSO volume. For FY 2006, capital expenditures for the CSO Program were approximately \$7.9 million.

The CSO Control Plan was updated in 2000 and sewer separation continues to be the long-term approach to the City's CSO concerns. The total estimated cost of the CSO Control Plan in 2006 dollars is \$403 million with \$296 million in direct CSO abatement costs remaining. In conjunction with the CSO abatement program, optional projects included in this cost are replacement of water system infrastructure at an estimated remaining cost of \$25 million, and street and road improvements in those areas where CSO projects are being undertaken at a cost of \$52 million. The City faces continued challenges in its sewer operations. Regulatory mandates for nutrient removal at the wastewater treatment plant and major interceptor sewer replacements could impact future sewer rates to fund debt. Remaining sewer infrastructure continues to age, further burdening the fund's future. Although, it failed to receive any new grants from either source in FY 2006, the City continues to lobby for federal and state grants.

Education

The May 16, 2005 issue of Newsweek Magazine included both City high schools in their Top 1000 High Schools. From over 27,468 public high schools in the United States, E. C. Glass High School was ranked 412 and Heritage High School was ranked 615. Educational achievements include State of Virginia Department of Education notification to the Lynchburg City Schools that all sixteen of its public schools earned full accreditation for 2006. In addition, ten of the eleven elementary schools, one middle school, and both high schools met all 29 of the increasingly rigorous Adequate Yearly Progress accountability standards of the No Child Left Behind Act of 2001. Students in the graduating class of 2006 took over 420 Advanced Placement exams and completed over 160 dual enrollment courses. In addition, over fifty-one percent (51%) of the 2006 graduating class earned a State advanced studies diploma, the criteria for which are set by the Virginia Department of Education.

Infrastructure

In addition to the projects outlined in the Downtown and Riverfront Development/Redevelopment section of this letter, the City continues to focus on major infrastructure projects in other areas as well.

The renovation and expansion of the City's oldest high school, E. C. Glass, began during the summer of 2003. Fourteen science classrooms and an auxiliary gym were added during FY 2004. An extensive renovation of the existing building included electrical and plumbing upgrades, new HVAC

systems, new windows, installation of elevators, and classroom renovations. A limited partnership was formed to utilize state historic tax credits as part of an overall \$28.7 million financing plan. Construction is expected to be complete in early FY 2007.

Other projects completed in FY 2006 involved transportation and economic and community development. A \$1.5 million improvement to the Old Graves Mill Road and Graves Mill Road intersection opened another travel route for employees at nearby businesses and added a traffic signal to improve traffic flow and safety. A partnership between the City of Lynchburg and a private developer resulted in the construction of a new and improved entrance to a major shopping area. Multiple culverts throughout the city were replaced, including two large concrete box culverts in the Windsor Hills neighborhood at a cost of over \$600,000. After a \$1.8 million dollar makeover, Monument Terrace, a memorial to soldiers of previous wars, was reopened. Finally, two new subdivisions opened with 65 available lots; the expected average cost of houses in both neighborhoods is above \$350,000.

As for projects underway in FY 2006, the City of Lynchburg began improvements to a half mile section of Old Graves Mill Road from Robin Drive to Timberlake Road, which will include a curb and gutter and the addition of a center turn lane at a cost of approximately \$1.2 million. Repairs to the Martin Luther King, Jr. Memorial Bridge and preliminary engineering designs for replacement of the Florida Avenue Bridge and repairs to the Rivermont Avenue Bridge have commenced. Also, progress has been made on finalizing the design of the new Juvenile and Domestic Courthouse, a project estimated to cost more than \$12 million.

Information Technology

The City continued to leverage and expand the use of information technologies across departments to improve customer service and efficiency. For the second consecutive year, the City was recognized as one of the top ten “most technology-advanced cities in America” by the Center for Digital Government for cities of its size. For cities in the population category of 30,000 – 74,999, Lynchburg placed sixth in the nation for its use of information technologies to improve service delivery to citizens and to advance the concept of digital government.

The Information Technology Strategic Plan was updated at the end of FY 2006 for the planning period FY 2007 – FY 2009. Goals and strategies were adopted in four areas of focus covering: systems, support processes, organization, and technology infrastructure. Significant emphasis is placed on improving the data center infrastructure and disaster recovery capabilities.

Public Safety

Lynchburg currently enjoys the lowest crime rate of any independent city in the Central Virginia region. One of the biggest reasons for this success involves the Lynchburg Police Department’s implementation of a “community policing” organizational philosophy in 1996, stressing cooperation and communication between police officers and the community they serve. In November 1989, the department became the 124th law enforcement agency in the nation to be accredited by the Commission of Accreditation of Law Enforcement Agencies with re-accreditation in November 1994, 1999, 2002, and 2005.

Public Works

The Public Works Streets Division spent \$2 million on the Street Overlay Program, paving 44.38 lane miles. An additional 11.80 lane miles of roadway was added to the City’s infrastructure, which will increase the Virginia Department of Transportation (VDOT) maintenance payments by \$110,000. In another initiative, to support the Daniels Hill Historic Restoration SAFETEA Enhancement Grant, asphalt paving was removed from four blocks of Cabell Street, beginning the process of restoring the street to its historical brick form.

Aviation

Lynchburg Regional Airport is owned and operated by the City of Lynchburg and is a full service airport offering an array of aeronautical services including scheduled airline service, aircraft charter, maintenance and avionics, fuel services, flight training, aircraft storage, and State Police emergency med-flight services. As the primary commercial service airport for central Virginia, Lynchburg Regional Airport's market area contains a population of more than 228,600. The airport currently offers a total of 16 scheduled airline arrivals and departures daily through the regional affiliates of two major airlines, Delta and US Airways.

Despite significant uncertainty and financial upheaval in the airline industry, Lynchburg Regional Airport's airline service has remained relatively stable. Regional jet service inaugurated by Delta Airlines in 2003 continues to perform well, while a recently merged US Airways/America West Airlines offers substantially improved turbo-prop service with five daily roundtrips to Charlotte, North Carolina. As a result, airport officials expect total passenger traffic in 2006 to remain at around 130,000.

The airport has made significant improvements in recent years to meet both commercial and general aviation needs such as constructing a new rental car service facility, a new State Police airborne medical evacuation facility, a new general aviation terminal, and a complete rehabilitation of taxiway "B". The major project completed in FY 2006 was a 12 unit T-hanger building. The project is self-supporting and was fully leased upon completion. The airport has an additional \$15 million in proposed projects in its five-year capital plan, including a 1,300-foot extension to the airport's main runway currently in the construction phase following grant awards from the Federal Aviation Administration. Construction of the runway extension is scheduled to begin in the fall of 2006 at a cost of approximately \$12 million. Airport projects are primarily funded by a combination of federal and state aviation funds, as well as Passenger Facility Charges (PFCs).

During the past year, airport staff continued efforts to reduce the operating subsidy from the General Fund. Despite a 3.6% decrease in passenger traffic, as a result of increasing airfares, the airport finished FY 2006 with a solid 7.7% increase in operating revenues. The FY 2006 General Fund subsidy of \$398,485 was the smallest since the airport became a separate fund and is 35.2% less than the subsidy of just four years ago. Airport management expects the subsidy to be further reduced in future years with the goal of the airport becoming completely self-sufficient by FY 2015.

Administrative Systems' Initiatives

Due to the Car Tax Reform in the Code of Virginia for the payment and collection of Personal Property Taxes, City Information Technology, Billings and Collections, and Commissioner of Revenue staff implemented a complete new system. Designed by Professional Consultancy International, Inc. (PCI), this system incorporates the changes made to the Personal Property Tax Relief Act. The implementation of this system allows City staff to accurately integrate the changes into the City's tax assessments and bills. Along with the implementation of the PCI system, staff restructured the billing process to allow citizens to pay their Personal Property Taxes in two installments instead of the full amount being due November 15 each year. The new installment dates are December 5 and June 5 each year. The City also eliminated vehicle decals which it replaced with a Vehicle License Fee. The Vehicle License Fee is collected with the tax installment due June 5.

The Centralized Accounts Payable system is currently in the design phase. A team representing various departments has been created to add efficiencies to the Procurement, Accounts Payable, and Receiving functions of the City. Full implementation is scheduled for FY 2007.

Prospects for the Future

The City of Lynchburg is guided by a vision that addresses the challenges of an urban central city and builds on the strengths inherent in the City and the region. City Council's Vision, adopted in 2000 and reviewed and reaffirmed annually, calls for "a community environment second to none," characterized by stable, productive, inspired families; a superior education system; dynamic economic development; and responsive, effective local government.

Through sound fiscal management and making difficult choices, the City copes with the financial challenges inherent in older core cities as it works to fulfill City Council's vision. Using guidance provided by City Council, City staff is developing specific objectives toward achievement of the vision. The City has joined a consortium of Virginia localities as part of the ICMA Center for Performance Measurement in order to better document results and benchmark against other communities. Internally, efforts will continue to identify improvements in technology, processes, and employee training and development to help the City maintain excellent core services while addressing new opportunities in a fiscally responsible manner.

Perhaps the biggest challenge facing the City is the maintenance of its extensive infrastructure of roads, sewers, water lines, and buildings. Many facilities have reached or are reaching the end of their projected lives and their replacement or upgrade present enormous costs. Extensive repairs are needed to several schools, there is a need for a new Juvenile and Domestic Relations Courthouse, many roads and bridges need to be upgraded, and new federal and state mandates may require significant enhancements to water and wastewater treatment facilities. While City revenues continue to experience modest growth, the City's debt capacity is approaching its limit, preventing extensive borrowing to address capital needs.

Considerable capital investment needs to occur in several priority areas. First of all, the City's commitment to the Schools' facilities will continue to require significant resources. Renovations to E. C. Glass High School will be complete in early FY 2007 and renovations to Sandusky Middle are proposed to begin in January 2007. Future renovations to Heritage High School and several elementary schools are also planned. Second, there needs to be continued investment in the downtown/riverfront area and both the Midtown and Fifth Street plans must be implemented. It has already been demonstrated that public investment encourages significant private investment, strengthening the City's tax base. There is a growing feeling that downtown redevelopment is reaching the critical mass of residential, business, and institutional activities necessary for it to become self-sustaining for the long term. The same success needs to be realized in other areas of the City needing revitalization. Finally, future capital investment is required in the CSO program and in the maintenance of the City's streets, bridges, and sidewalks.

Economic development activities will focus on promoting the City as a good place to live and work within Region 2000. Marketing efforts will target prospects for both downtown and the City's public and private industrial parks. Recognizing that economic development anywhere in the region provides benefits to Lynchburg, the City will support marketing efforts in neighboring jurisdictions as well. Tourism will continue to play an important role. In FY 2006, City Council appointed a Tourism Task Force to make recommendations on the future of the tourism program. The task force's recommendations are expected in early summer 2007. The City will continue working to accommodate appropriate commercial development to serve the region with shopping and dining opportunities. Lynchburg Regional Airport will remain an important transportation link for the area with a longer runway for expanded service.

On the state level, the City will remain active in the Virginia First Cities Coalition, pushing for a statewide urban policy, tax reform, adequate funding for education, and other shared responsibilities. As instruments of the state, the success of cities depends on the structure, environment, and support provided by state government. Multiple studies have demonstrated the relative disadvantage under which cities in Virginia operate. The long-term viability of the Commonwealth's older core cities depends on the

recognition of their importance to its regions and a greater sharing of the costs and benefits of providing services to those communities.

While the challenges are many for the City, so are the opportunities for success. The City will continue to take the steps necessary to become the progressive community outlined in Council's Vision.

Accounting System and Budgetary Controls

The City's accounting records for governmental fund type operations are maintained on a modified accrual basis with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and the liabilities incurred. Accounting records for the City's proprietary fund types are maintained on an accrual basis.

In developing and refining the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against loss from unauthorized use or disposition and (b) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

In 1999, City Council approved Debt Management, Fund Balance, and Budget and Investment policies to guide fiscal decision-making and to ensure continued strong financial health. In September 2004, City Council reaffirmed these policies. Council will review the Debt Management, Fund Balance, and Budget and Investment policies again in December 2006. Financial policies for risk management and grants are being developed for future consideration by City Council.

As required by law, each year, at least 60 days prior to June 30, the City Manager submits to City Council a recommended budget for the fiscal year beginning July 1. After an extensive budget preparation and review process and a public hearing to receive citizen input, City Council adopts the annual budget.

Risk Management

The City's Self-Insurance Plan and Risk Management Program combine self-insurance and third-party insurance coverage. The City is self-insured for workers' compensation, general liability, and automobile liability claims with outside insurance coverage for excess claims. The City also provides healthcare coverage through a professionally administered self-insurance program. The City has extended coverage for environmental issues and for the Lynchburg Regional Airport. Additionally, the City continues to expand its employee health and wellness program and employs an Occupational Health Nurse. An outline of the City's Risk Management Program and related coverage is provided in the footnotes to the financial statements.

Cash Management

The City uses a pooled cash concept to allow greater investment flexibility and consequently a better return on investments. All of the available City and Schools' cash, except for cash managed by fiscal agents, is pooled for investment purposes with maturities planned to coincide with cash needs. Cash temporarily idle during the year is invested in accordance with the Council-adopted Investment

Policy. The City continues to contract with a private investment firm to assist in evaluating various investment alternatives to increase investment income. The Investment Policy's objectives are to ensure safety for the investment portfolio's principal, provide sufficient availability of funds to meet cash requirements, and maximize the investment rate of return on permitted investments in accordance with federal, state, and local laws and other regulations governing the investment of public funds.

Independent Audit

State law and *City Code* require that the financial statements of the City be audited by an independent certified public accountant selected by City Council. Brown, Edwards & Company, L.L.P. has performed an audit of the Comprehensive Annual Financial Report (CAFR). The independent auditor's report, including an opinion on the basic financial statements of the government-wide and fund financial statements, is contained in the Financial Section of this Report. Brown, Edwards & Company, L.L.P. also audited the component unit financial statements of Lynchburg City Schools and the Greater Lynchburg Transit Company. Cherry, Beckaert & Holland, LLP, completed the audit for the Business Development Centre.

Certificates of Achievement for Excellence

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lynchburg for its CAFR for the fiscal year ended June 30, 2005. This was the ninth consecutive year the City achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

For the first time, GFOA also awarded the Distinguished Budget Presentation Award to the City of Lynchburg for its FY 2006 Adopted Budget. This award program was designed to encourage governments to prepare budget documents of the highest quality to meet the needs of decision-makers and citizens. Achieving this award is a great accomplishment for the City.

Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the staff of the Financial Services Department. Each member of the department has our appreciation for the contributions made by them in preparing this Report. Appreciation is expressed also to City Council for its interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



L. Kimball Payne, III
City Manager



Donna S. Witt
Director of Financial Services

CITY OF LYNCHBURG, VIRGINIA
COUNCIL-MANAGER FORM OF GOVERNMENT

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2006

CITY COUNCIL

Carl B. Hutcherson, Jr., Mayor*

Joan F. Foster, Vice-Mayor
Michael A. Gillette
Bertram F. Dodson, Jr.

Jeff S. Helgeson
Caesor T. Johnson
Joseph M. Seiffert

SCHOOL BOARD

Julie P. Doyle, Chairman

Katherine Banks
Albert L. Billingsly
Leslie J. Faircloth
Ellis M. Frankfort

Charles C. Hooks, Jr.
Carol A. Spencer-Read
Thomas H. Webb
Sterling A. Wilder

OFFICIALS

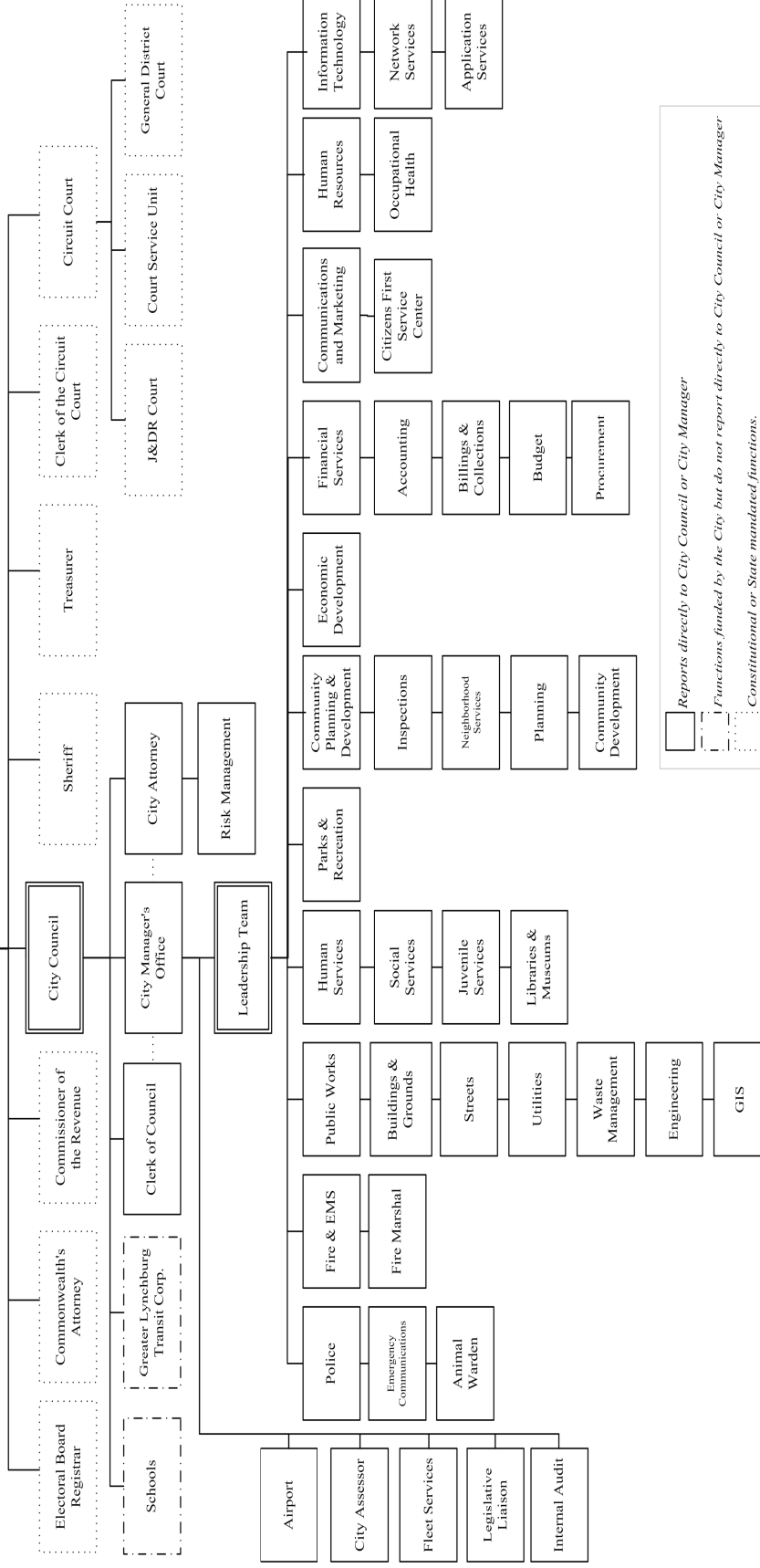
L. Kimball Payne, III
Bonnie Svrcek
Walter C. Erwin
Donna Witt
Dr. Paul McKendrick
Dr. Roger L. Roberts
Dr. Stephens C. Smith

Linda O. Tuck

City Manager
Deputy City Manager
City Attorney
Director of Financial Services
Superintendent of Schools
Deputy Superintendent
Assistant Superintendent for Curriculum and
Instruction
Comptroller

*The Mayor resigned effective May 2006

CITY OF LYNCHBURG Citizens



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lynchburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Enen

Executive Director

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council and the City Manager
City of Lynchburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit referred to as the Business Development Centre, Inc., whose statements reflect total assets of \$1,208,772 as of June 30, 2006, and total revenues of \$436,161 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us; and our opinion, insofar as it relates to the amounts included for that discretely presented component unit is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on page 3 and page 46 are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. In addition, the accompanying schedules of passenger facility charges and of expenditures of passenger facility charges are presented for purposes of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements, the schedule of expenditures of federal awards, and the schedule of expenditures of passenger facility charges have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 10, 2006

CITY OF LYNCHBURG, VIRGINIA

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) of the City of Lynchburg's (City) financial statements offers the readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2006. The Lynchburg City Schools (Schools) component unit is included in this narrative also. The information presented here should be considered in conjunction with additional information provided in the Letter of Transmittal.

FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at June 30, 2006 by \$341 million (net assets). Unrestricted net assets of \$76 million were available to meet future obligations. This represented \$46.6 million for governmental activities, which included the General Fund, and \$29.4 million for business-type activities, which included the Enterprise Funds (Solid Waste Management, Water, Sewer, and Airport).
- The General Fund's undesignated fund balance of \$26 million was 18% of total General Fund revenues, which were \$145.8 million. This was \$11.4 million more than the City Council adopted undesignated fund balance policy target of 10%, or \$14.6 million.
- In comparison with the prior fiscal year, the City's total net assets increased 7%, or \$20.6 million. Net assets of governmental activities increased 7%, or \$11.5 million; and, net assets of business-type activities increased 6%, or \$9.1 million. The Schools' total net assets decreased 2%, or \$0.4 million.
- The City's total revenues of \$202.7 million increased 10%, or \$18.2 million, and total expenses of \$182.1 million increased 8%, or \$13.2 million, from FY 2005. General revenues and transfers of \$118.4 million were \$20.6 million more than the expenses net of program revenues of \$97.8 million.
- For the current fiscal year, the City's total liabilities of \$303.8 million increased by 15%, or \$40.4 million. Total new long-term debt of \$56.3 million was issued, of which \$29.6 million was for governmental activities and \$26.7 million was for business-type activities. Governmental activities new long-term debt consisted of \$23.2 from general obligation bonds and \$6.4 million of a Virginia Public School Authority (VPSA) bond to advance refund \$7.5 million of two-year bond anticipation notes (BANS). Business-type activities new long-term debt of \$26.7 million consisted of \$9.6 million from the Virginia Revolving Loan Program (VRL) for sewer capital projects, \$0.6 million of general obligation bonds, and two-year bond anticipation notes of \$16.5 million. The City retired \$22.5 million of outstanding principal, which included the advance refunded debt of \$7.5 million in BANS and \$15 million of planned retirements. Planned retirements were \$7.4 million for governmental activities and \$7.6 million for business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) consists of four sections: *introductory, financial, statistical and compliance*. The financial section consists of the *independent auditor's report, management's discussion and analysis, basic financial statements and required supplementary information*. This Management's Discussion and Analysis serves as an introduction to the City's basic financial statements, which are the *government-wide financial statements, fund financial statements, and notes to the financial statements*. In addition to the required elements, an *other supplementary information* section is included which presents combining statements for non-major governmental, special revenue and capital funds, agency funds, discretely presented component units, budget and actual schedules for discretely presented component units, and other supplemental schedules including the statistical section.

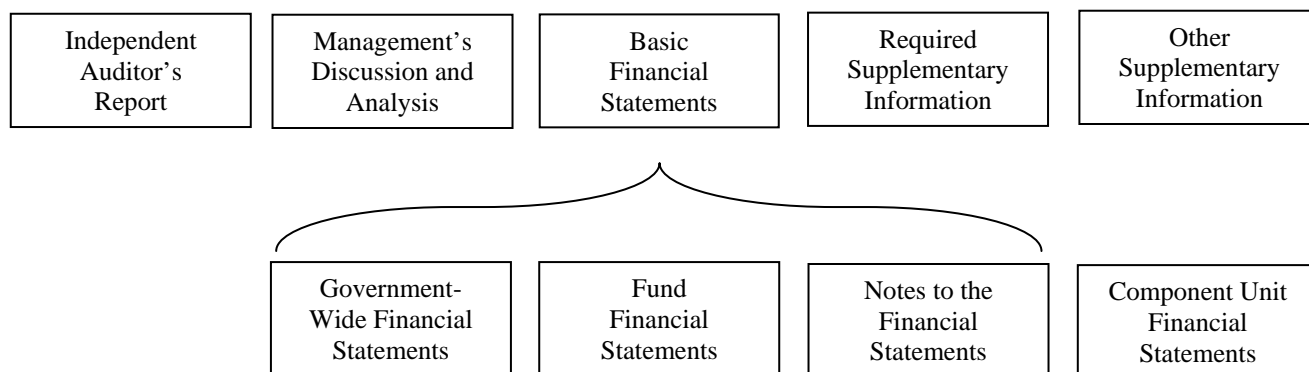
The City's basic financial statements present two kinds of statements, each with a different view of the City's finances. Both the government-wide and fund perspectives allow the reader to address relevant questions, broaden the basis of comparison and enhance the City's accountability.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the City's overall financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City’s operations in more detail than the government-wide statements.
 - *Governmental fund statements* tell how *general government* services like public safety are financed in the *short-term* as well as what remains available for future spending.
 - *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *similar to businesses*, such as the public utilities systems (water and sewer).
 - *Fiduciary fund statements* provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include notes that detail data supporting the information in the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A summarizes the required elements of the financial section and its organization in the CAFR.

Figure A
Required Components of the Financial Section



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are similar to those used by private-sector companies and report information about the City as a whole. One of the most important questions asked about the City’s finances is, “Is the City as a whole better or worse as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City’s finances and its activities to answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. These statements combine and consolidate short-term, available resources with capital assets and long-term obligations.

The Statement of Net Assets and the Statement of Activities report the City’s net assets and changes in net assets. One can think of the City’s net assets – the difference between assets and liabilities – as a way to measure the City’s financial health, or financial position. Over time, increases or decreases in net assets help determine whether the City’s financial position is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, the City is divided into the following:

Governmental activities - Most of the City’s basic services are reported here: general government, police, fire, public works, juvenile and social services, parks and recreation, community development and fleet internal services. Primarily, property taxes, other taxes, and intergovernmental revenue finance these activities.

Business-type activities - The financial information for the solid waste management, water, sewer and airport activities are reported here. The City charges a fee to customers to fund all or most of the cost of services provided by these activities.

Component units - The City also includes three separate legal entities in its Report – the Lynchburg City Schools, the Greater Lynchburg Transit Company, and the Business Development Centre, Inc. While these represent legally separate entities, their operational or financial relationship with the City makes the City financially accountable.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate fiscal accountability. As described in the following information, the City uses governmental, proprietary, and fiduciary fund financial statements to provide detailed information regarding its most significant funds.

Governmental Funds

Governmental funds report most of the City's basic services. The funds focus on cash and other financial resources that can be readily converted to cash flows in and out, and balances left at year-end that are available for future spending. Consequently, the governmental funds statements provide a near or short-term view of the City's finances that helps the reader determine whether there are greater or fewer financial resources available in the near future to finance City programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

Proprietary Funds

Proprietary funds report the same functions that are presented as business-type activities in the government-wide financial statements. Proprietary funds are classified as enterprise or internal service funds. An enterprise fund reports any activity for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided on a cost reimbursement basis from activities within the government. The City maintains four enterprise funds to account for the solid waste management, water, sewer and airport operations; and, an internal service fund to account for its fleet services. Because fleet services predominantly benefit governmental rather than business-type functions, the internal service fund is included within governmental activities in the government-wide financial statements.

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the City cannot use these assets for its operations.

Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, Transmittal Letter and the MD&A.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The Combining and Individual Fund Statements and Schedules for all Non-major Funds include the governmental, special revenue, and capital projects funds.

The Schools' and the City's financial statements are included in one Comprehensive Annual Financial Report.

The Greater Lynchburg Transit Company and the Business Development Centre, Inc. issue separate reports.

Other Supplementary Information for the City and Schools includes a Statistical Section, Schedule of Expenditures of Federal Awards and Schedules of Passenger Facility Charges Revenues and Expenditures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The following table reflects condensed information for the City's net assets. Percentage changes in the table below were rounded for the following narrative.

*Summary of Statement of Net Assets
As of June 30, 2006/2005
(in millions)*

	Governmental Activities		Business-Type Activities		Total Primary Government		Percent Change	Component Unit Schools	
	2006	2005	2006	2005	2006	2005	2006-2005	2006	2005
Current and other assets	\$ 86.4	\$ 55.3	\$ 68.6	\$ 46.6	\$ 155.0	\$ 101.9	52.11%	\$ 18.6	\$ 15.5
Capital assets	250.8	249.1	239.0	232.8	489.8	481.9	1.64%	2.0	2.0
Total assets	337.2	304.4	307.6	279.4	644.8	583.8	10.45%	20.6	17.5
Long-term liabilities	134.0	118.4	148.8	129.7	282.8	248.1	13.99%	2.7	2.8
Other liabilities	17.4	11.7	3.6	3.6	21.0	15.3	37.25%	16.4	12.8
Total liabilities	151.4	130.1	152.4	133.3	303.8	263.4	15.34%	19.1	15.6
Net Assets									
Invested in capital assets, net of related debt	139.2	140.5	125.5	119.2	264.7	259.7	1.93%	0.2	0.2
Restricted	-	-	0.3	-	0.3	-	100.00%	-	-
Unrestricted	46.6	33.8	29.4	26.9	76.0	60.7	25.21%	1.3	1.7
Total net assets	\$ 185.8	\$ 174.3	\$ 155.2	\$ 146.1	\$ 341.0	\$ 320.4	6.43%	\$ 1.5	\$ 1.9

The City's total net assets of \$341 million increased 6%, or \$20.6 million, from FY 2005.

Net assets invested in capital, net of related debt, of \$264.7 million were 78% of total net assets and increased 2%, or \$5 million. Net assets invested in capital were not available for future expenses because they were facilities, equipment, and infrastructure, etc. utilized to provide services. Please refer to Notes 8 and 9 of this report and the MD&A's capital assets and long-term debt sections.

The City has a strong financial position with 22%, or \$76 million, of unrestricted net assets, which are comprised of 61%, or \$46.6 million, for governmental activities, and 39%, or \$29.4 million, for business-type activities. Unrestricted net assets available for providing services to the citizens increased 25%, or \$15.3 million.

The Schools' component unit total net assets of \$1.5 million decreased 21%, or \$0.4 million. Unrestricted net assets of \$1.3 million decreased 24%, or \$0.4 million.

Statement of Activities

The City's total revenues and expenses for governmental and business-type activities are reflected in the following table. Percentage changes in the table below were rounded for the following narrative.

Summary of Changes in Net Assets For Fiscal Years Ended June 30, 2006/2005 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2006	2005	2006	2005	2006	2005	2006-2005	2006	2005
Revenues:									
Program Revenues:									
Charges for services	\$ 10.9	\$ 9.1	\$ 34.7	\$ 32.8	\$ 45.6	\$ 41.9	8.83%	\$ 1.7	\$ 1.6
Operating grants/contributions	32.5	29.9	0.4	0.3	32.9	30.2	8.94%	49.3	48.9
Capital grants/contributions	2.4	4.1	3.1	5.5	5.5	9.6	-42.71%	-	-
General Revenues:									
Property taxes	60.2	49.8	-	-	60.2	49.8	20.88%	-	-
Other taxes	44.0	42.4	-	-	44.0	42.4	3.77%	-	-
Unrestricted intergovernmental	9.4	8.4	-	-	9.4	8.4	11.90%	-	-
Interest	1.8	1.0	1.3	0.3	3.1	1.3	138.46%	-	-
Miscellaneous	1.6	0.4	0.1	-	1.7	0.4	325.00%	0.5	0.5
Transfers	-	-	0.3	0.5	0.3	0.5	-40.00%	-	-
City appropriation	-	-	-	-	-	-	-	29.9	27.1
Total Revenues	<u>\$ 162.8</u>	<u>\$ 145.1</u>	<u>\$ 39.9</u>	<u>\$ 39.4</u>	<u>\$ 202.7</u>	<u>\$ 184.5</u>	<u>9.86%</u>	<u>\$ 81.4</u>	<u>\$ 78.1</u>
Expenses:									
General government	11.2	10.1	-	-	11.2	10.1	10.89%	-	-
Judicial	5.1	4.7	-	-	5.1	4.7	8.51%	-	-
Public safety	39.6	35.8	-	-	39.6	35.8	10.61%	-	-
Public works	20.8	18.8	-	-	20.8	18.8	10.64%	-	-
Health and human services	21.1	21.3	-	-	21.1	21.3	-0.94%	-	-
Cultural and recreational	8.9	8.2	-	-	8.9	8.2	8.54%	-	-
Community development	6.5	6.4	-	-	6.5	6.4	1.56%	-	-
Education	32.6	28.6	-	-	32.6	28.6	13.99%	81.8	77.8
Interest & other fiscal charges	5.0	4.6	-	-	5.0	4.6	8.70%	-	-
Issuance costs	0.2	0.2	-	-	0.2	0.2	100.00%	-	-
Transfers	0.3	0.5	-	-	0.3	0.5	-40.00%	-	-
Solid waste management	-	-	5.6	5.8	5.6	5.8	-3.45%	-	-
Airport	-	-	3.5	3.4	3.5	3.4	2.94%	-	-
Water	-	-	9.3	8.7	9.3	8.7	6.90%	-	-
Sewer	-	-	12.4	11.8	12.4	11.8	5.08%	-	-
Total Expenses	<u>\$ 151.3</u>	<u>\$ 139.2</u>	<u>\$ 30.8</u>	<u>\$ 29.7</u>	<u>\$ 182.1</u>	<u>\$ 168.9</u>	<u>7.82%</u>	<u>\$ 81.8</u>	<u>\$ 77.8</u>
Change in net assets	<u>11.5</u>	<u>5.9</u>	<u>9.1</u>	<u>9.7</u>	<u>20.6</u>	<u>15.6</u>	<u>32.05%</u>	<u>(0.4)</u>	<u>0.3</u>
Net assets beginning	<u>174.3</u>	<u>168.4</u>	<u>146.1</u>	<u>136.4</u>	<u>320.4</u>	<u>304.8</u>	<u>5.12%</u>	<u>1.9</u>	<u>1.6</u>
Net assets ending	<u>\$ 185.8</u>	<u>\$ 174.3</u>	<u>\$ 155.2</u>	<u>\$ 146.1</u>	<u>\$ 341.0</u>	<u>\$ 320.4</u>	<u>6.43%</u>	<u>\$ 1.5</u>	<u>\$ 1.9</u>

Governmental Activities

The City's governmental activities are comprised of the General Fund, Fleet Internal Services Fund, and Special Revenue Funds. Special Revenue Funds are primarily for general government Grant Funds, and City Capital and Schools' Capital Projects Funds. Total net assets of \$185.8 million increased 7%, or \$11.5 million, from FY 2005.

Net assets invested in capital, net of related debt, decreased 1%, or \$1.3 million. Of total net assets, 75%, or \$139.2 million, was invested in capital assets, net of related debt, and not available for future expenses.

Unrestricted net assets available to provide services to citizens increased 38%, or \$12.8 million, and were 25%, or \$46.6 million of total net assets.

Revenues

Revenues from governmental activities of \$162.8 million increased 12%, or \$17.7 million, from the prior year.

General revenues, specifically Property Taxes of \$60.2 million, or 37% of total revenues, and Other Local Taxes of \$44 million, or 27% of total revenues, were the largest components of this revenue category equaling \$104.2 million, or 64% of total revenues. Real property taxes revenue of \$38.8 million, the City's largest single revenue, increased 11%, or \$3.8 million. The FY 2006 assessed real property tax base increased 11.5% due to general reassessments that occur every other fiscal year. The real property tax rate has been \$1.11 per \$100 of assessed real property value for the last nine years.

Of the \$60.2 million in Property Taxes revenues, the City received \$20.6 million from personal property taxes, which was 13% of total revenues. This was the second largest revenue source comprised of taxes on individual automobiles, business personal property, and machinery and tools. The City received \$5.7 million from the Commonwealth of Virginia under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA). The State's reimbursement to the City was based on 70% of the individual taxpayer's automobile levy. When the State reimbursement was added back to the local personal property taxes, there was a total of \$26.3 million, reflecting a 27%, or \$5.6 million, increase. This substantial increase over prior years is due to implementing a semi-annual installment billing process in FY 2006. Both installments were billed in May 2006 for the calendar year 2006 personal property tax levy and the motor vehicle license fee. However, only the first semi-annual installment and the motor vehicle license fee were due June 15, 2006 (due June 5th for future years). In FY 2006, \$6 million in revenue from this first installment was a one-time occurrence due to this implementation. The second installment will be due December 5, 2006. At June 30, 2006, the receivable was \$5.8 million with unearned revenue of \$6.9 million due to second installment receipts of \$1.1 million prior to fiscal year end. The first installment tax revenue is a financial resource for the current fiscal year. The second installment tax revenue is a financial resource for the next fiscal year. This new process was in addition to the single installment billing process in November 2005 for the calendar year 2005 personal property tax levy. Therefore, in FY 2006, the City collected personal property tax revenues for the current fiscal year November 2005 levy as well as \$6 million for the first semi-annual installment for the May 2006 levy. Lastly, the 2005 Virginia General Assembly placed a \$950 million limit on disbursements to local governments from the PPTRA Program. The State's 70% relief reimbursement of the individual taxpayer's automobile tax levy was eliminated and replaced with allocations of the \$950 million to each locality. Each locality's allocation is based upon the State's PPTRA relief reimbursements for the 2004 tax year, and will be disbursed quarterly in unequal amounts beginning in FY 2007. The City's allocated amount is \$5.8 million. In order to provide tax relief credit for qualifying vehicles to individual taxpayers, this amount was utilized in the May 2006 levy and billing.

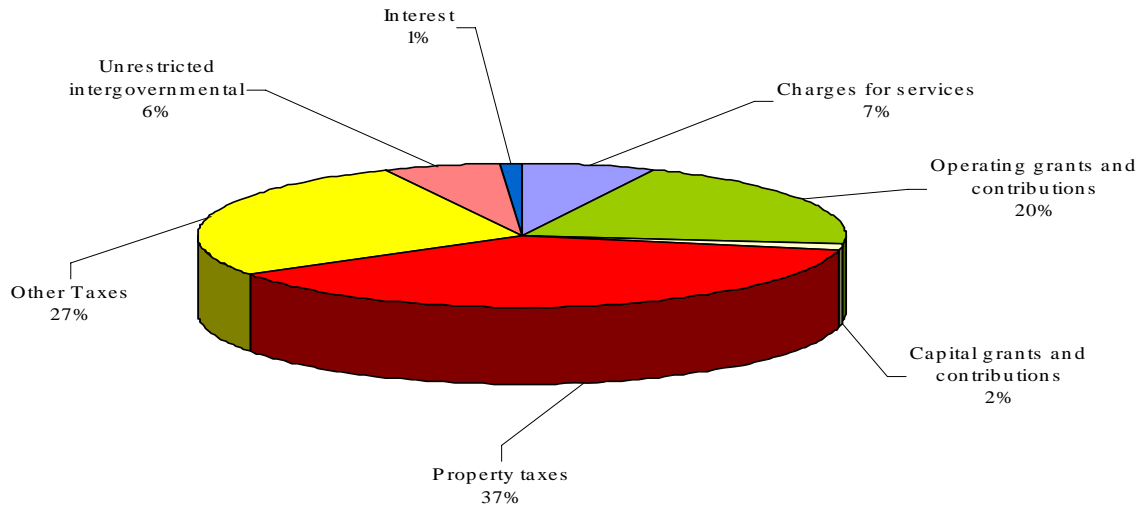
Other Taxes of \$44 million, or 27% of total revenues, was comprised of revenue from Local Sales, Consumer Utilities, Business Licenses, and Meals Taxes. Local Sales Tax revenues were \$13.3 million and increased 9%, or \$1.1 million. Consumer Utilities Tax revenue of \$6.8 million decreased 19%, or \$1.6 million. Business Licenses Taxes of \$7.7 million increased 10%, or \$0.7 million, and Meals Taxes of \$9.4 million increased 9%, or \$0.8 million. The combination of these revenues resulted in an overall increase of 4%, or \$1.6 million, in Other Taxes revenue.

Operating grants and contributions of \$32.5 million, or 20% of total revenues, were comprised of revenues from the Commonwealth of Virginia and the federal government mainly for health and human services, public works, public safety, community development, and judicial activities. The 9%, or \$2.6 million, increase related primarily to \$0.6 million for the Community Oriented Police Services (COPS), Homeland Security, and Firefighters public safety programs, and \$0.6 million for the Virginia Department of Transportation (VDOT) streets and highways maintenance public works programs. Lastly, the health and human services programs increased overall by \$0.4 million due to an increase of \$1 million for the Workforce Investment Act and a decrease of \$0.6 million from the Comprehensive Services Act and Revenue Maximization programs.

Charges for services of \$10.9 million, or 7% of total revenues, increased 20%, or \$1.8 million. This was primarily due to \$1.1 million of increased public safety ambulance services revenue.

The following chart reflects the Governmental activities distribution of revenues by source.

Revenue by Source-Governmental Activities



Expenses

Governmental activities expenses totaled \$151.3 million, which included the following increases in expenses from FY 2005: 2% for City employee compensation, along with additional funding of 1% for a performance based pay initiative; employee/retiree benefits; public safety computer equipment; buildings, bridges, streets, and highway maintenance; fuel; and depreciation. Education increased 14%, or \$4.0 million, primarily due to a \$2.8 million local contribution increase and \$1.1 million in depreciation. Overall, this represented a 9% increase, or \$12.1 million, as compared to the prior year for governmental activities expenses.

The following table indicates the total cost of services and net cost of services for governmental activities.

***Net Cost of Governmental Activities
For Fiscal Years Ended FY 2006/2005
(in millions)***

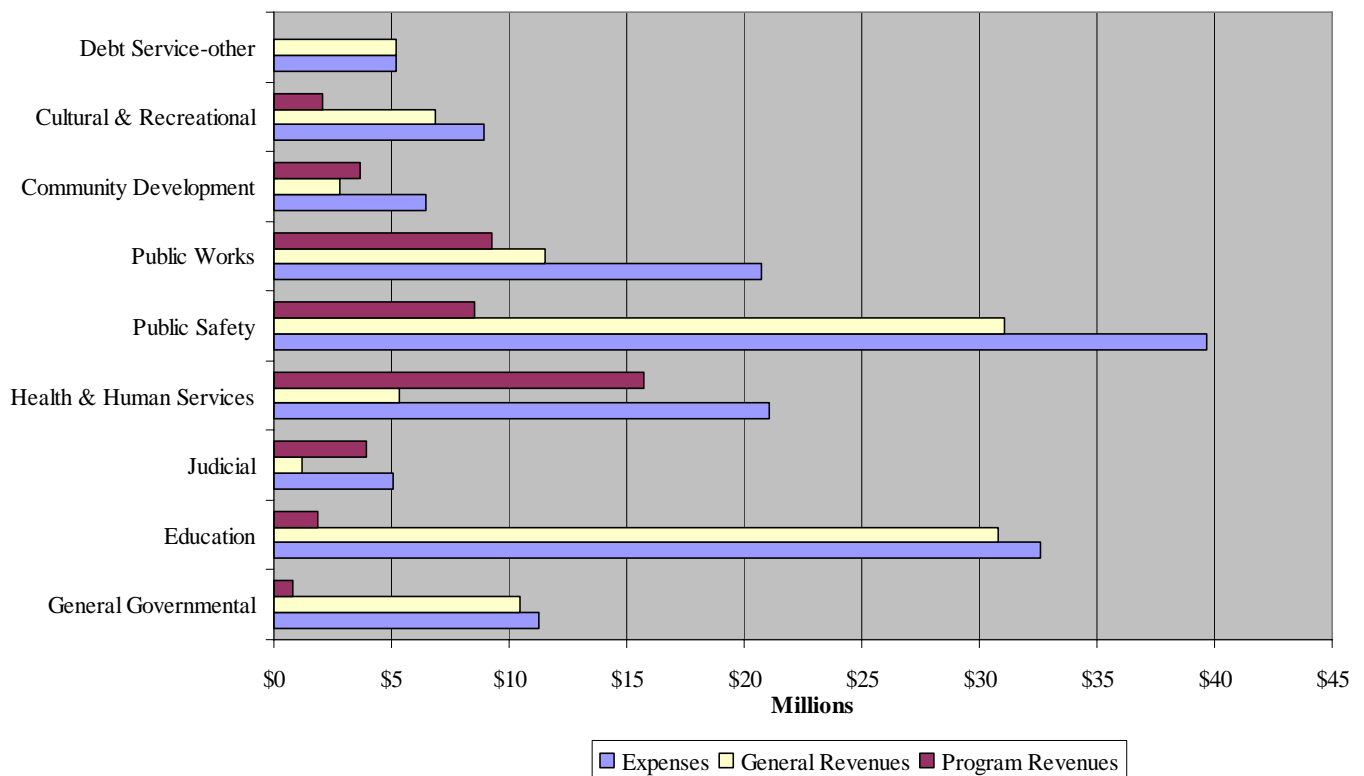
Governmental Activity	Total Cost of Services			Net Cost of Services		
	2006	2005	Percentage Change 2006-2005	2006	2005	Percentage Change 2006-2005
General government	\$ 11.2	\$ 10.1	10.89%	\$ 10.5	\$ 9.4	11.70%
Judicial	5.1	4.7	8.51%	1.2	1.0	20.00%
Public safety	39.6	35.8	10.61%	31.1	29.6	5.07%
Public works	20.8	18.8	10.64%	11.5	9.9	16.16%
Health and human services	21.1	21.3	-0.94%	5.3	6.1	-13.11%
Cultural and recreational	8.9	8.2	8.54%	6.9	6.2	11.29%
Community development	6.5	6.4	1.56%	2.8	3.3	-15.15%
Education	32.6	28.6	13.99%	30.8	25.4	21.26%
Interest payments & other fiscal charges	5.0	4.6	8.70%	5.0	4.6	8.70%
Issuance costs & other	0.5	0.7	-28.57%	0.5	0.7	-28.57%
Total Governmental Activities	\$ 151.3	\$ 139.2	8.69%	\$ 105.6	\$ 96.2	9.77%

The four largest funded programs were: public safety at 26%, or \$39.6 million; local support for education at 22%, or \$32.6 million; health and human services at 14%, or \$21.1 million; and public works at 14%, or \$20.8 million. Education continued to be one of the highest priorities and commitments. In addition to the local operating contribution, the City contributed \$5.6 million to the Schools for capital projects.

As demonstrated in the previous table, the governmental activities total cost of services increased 9% and its net cost of services increased 10% from the prior year. The Statement of Activities shows that the \$151 million in governmental activities program expenses were financed by \$10.9 million (7%) from those receiving services, \$32.5 million (20%) from operating grants and contributions, \$2.4 million (2%) from capital grants and contributions, and \$105.2 million (71%) from general revenues. Overall, general revenues and transfers of \$116.7 million were \$11.5 million more than the \$105.2 million of expenses net of program revenues.

The following graph compares the governmental activities program expenses and program revenues, and indicates program funding from general revenues.

Program Expenses and Program Revenues - Governmental Activities



Business-type Activities

The business-type activities are comprised of Enterprise Funds for solid waste management, water, sewer, and airport operations. Total net assets of \$155.2 million increased 6%, or \$9.1 million, from FY 2005.

Net assets invested in capital, net of related debt, increased 5%, or \$6.3 million. For total net assets, 81%, or \$125.5 million, was invested in capital, net of related debt, and not available for future expenses.

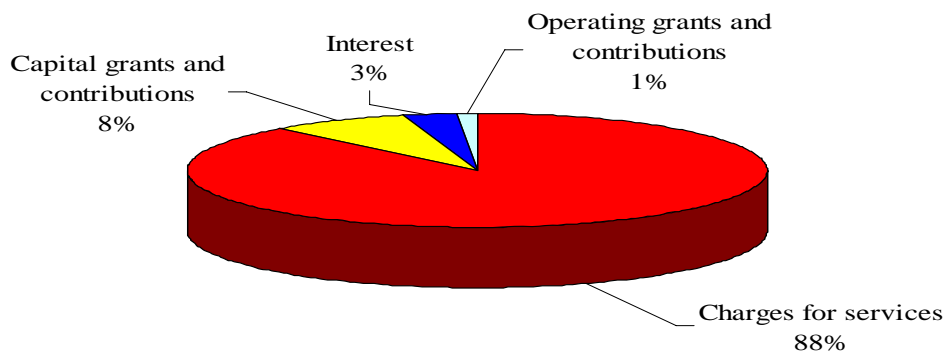
Unrestricted net assets available to provide services to citizens increased 9%, or \$2.5 million, and were 19%, or \$29.4 million, of total net assets.

Revenues

Business-type activities revenues of \$39.9 million increased 1%, or \$0.5 million, from the prior year. This was primarily due to increases in charges for services of 6%, or \$1.9 million, from 4% rate increases for water and sewer services. Investment earnings increased 100%, or \$0.6 million, due to higher yields and expansion of the investment program. Intergovernmental operating/capital grants contributions decreased by \$2.3 million primarily related to the Combined Sewer Overflow (CSO) program. Of the \$39.9 million in total revenues, 88%, or \$34.7 million, was from charges for services and 9%, or \$3.5 million, was from operating/capital grants and contributions, the majority of which was for CSO correction activities.

The following chart reflects the Business-type activities distribution of revenues by source.

Revenues by Source - Business-type Activities



Expenses

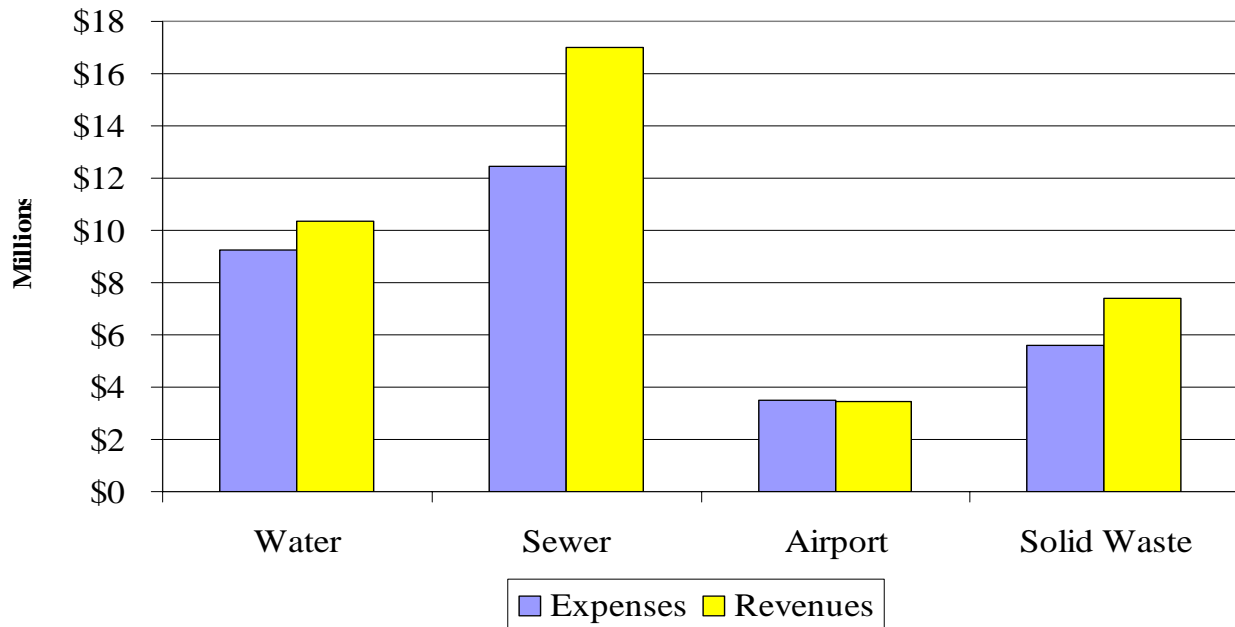
Business-type activities expenses of \$30.8 million increased 4%, or \$1.1 million, from the prior year. This was due primarily to increased operation and maintenance expenses including fuel, interest on debt, and depreciation.

The Proprietary Funds provide the same type of information reported in the government-wide financial statements for business-type activities, but in more detail. Please refer to the MD&A's section on Financial Analysis of the Fund Financial Statements-Proprietary Funds for detailed analysis of the business-type activities major funds.

Overall, business-type activities revenues of \$39.9 million were \$9.1 million more than expenses of \$30.8 million.

The following graph compares the business-type activities program expenses and program revenues.

Program Expenses and Program Revenues - Business-type Activities



Component Unit – Schools

The Schools' total net assets of \$1.5 million decreased 21%, or \$0.4 million, from FY 2005 primarily due to increased fuel and natural gas utility costs, and an increase in the return of local contribution to the City from the prior year.

Revenues

Total revenues of \$81.4 million increased 4%, or \$3.3 million, in comparison with the prior year fund financial statements. For FY 2006, 49%, or \$39.9 million, of total revenues were received from the Commonwealth of Virginia, which included \$9.1 million in sales tax receipts. The City government contributed 37%, or \$29.9 million, to education. Federal revenues of 10%, or \$8.5 million, included \$2.8 million from Title I funds to provide educational services to economically disadvantaged students and \$2.1 million to provide special education services for students with disabilities. School Nutrition revenues of \$2.9 million included \$2.1 million from the federal government for the operation of the breakfast and lunch programs. Other revenue sources of 4%, or \$2.9 million, included school meals sales, tuition paid by participating school divisions to the Central Virginia Governor's School for Science and Technology, and other miscellaneous sources.

Expenses

Total expenses of \$81.8 million increased 5%, or \$4 million, from the prior year. For FY 2006, 75%, or \$61.2 million, of total expenses related directly to providing instruction to 8,602 students and 14%, or \$11.5 million, supported maintenance and operations of school division facilities including the School Nutrition Program. Transportation costs for students were 5%, or \$3.8 million; administration for the schools and attendance and health services for students were 3%, or \$2.5 million. Capital outlays in the fund financial statements of 3%, or \$2.8 million, of total expenses included the acquisition of equipment. Purchases from capital lease proceeds of \$1.3 million were included in capital outlay expenditures in the fund financial statements.

FUND FINANCIAL ANALYSIS

Governmental Funds

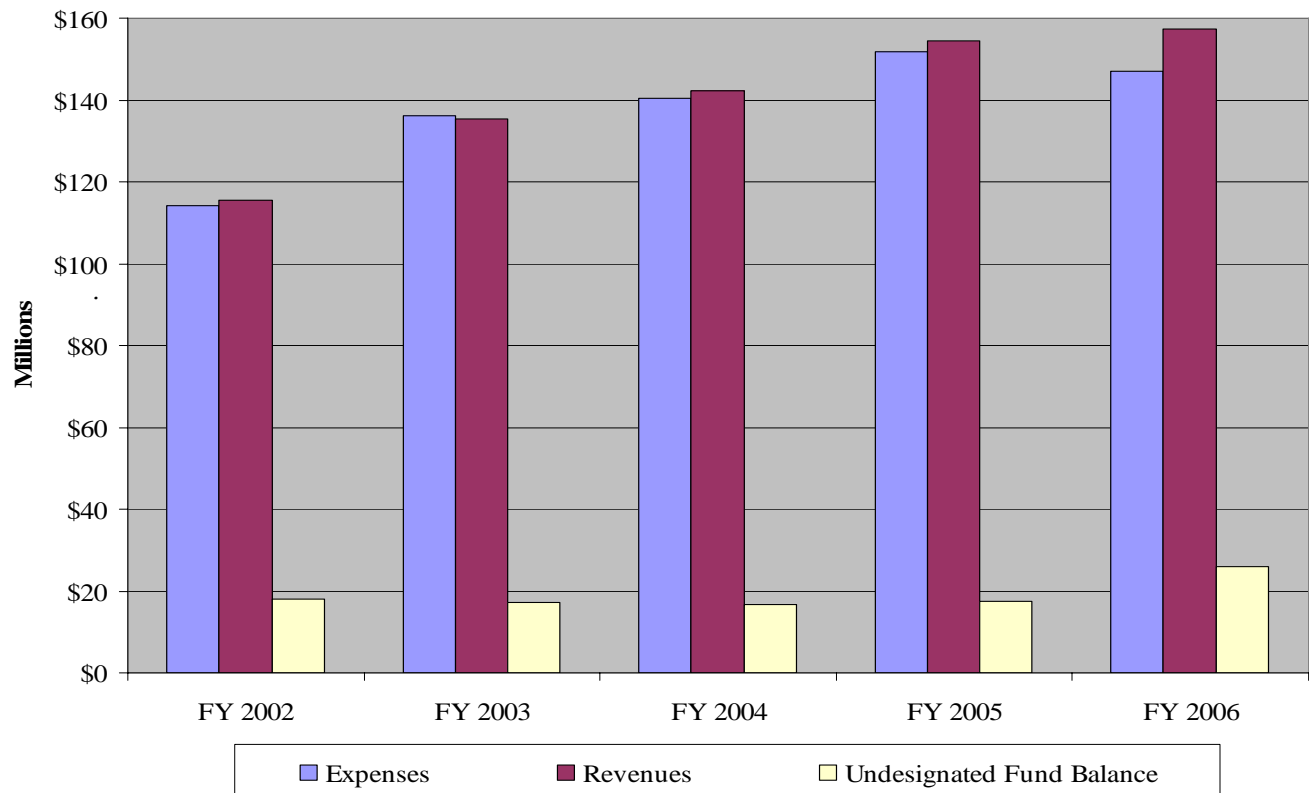
Governmental Funds include the General Fund and Other Governmental Funds, which are comprised of the Special Revenue and Capital Projects Funds. The governmental funds' focus is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for future spending.

- For FY 2006, the City's governmental funds reported combined fund balances of \$57.4 million. Of the combined fund balances, \$39 million constituted undesignated fund balances available for future expenses representing \$26 million for the General Fund, \$3.7 million for Special Revenue Funds, and \$9.3 million for the Capital Projects Funds.
- The \$3.7 million undesignated fund balances for Other Governmental Funds was comprised of the Special Revenue Funds primarily related to the City/Federal/State Aid Projects, E-911, and Technology Services Funds.
- Of the combined fund balances, \$10.8 million was designated, indicating commitment to specific uses comprised primarily of \$6.6 million designated for the Schools, \$2.2 million for the City's self-insurance program, \$0.5 for capital projects, and \$0.3 in the Special Revenue Funds. The FY 2006 reserve for encumbrances of \$7 million consisted mainly of \$0.6 million for the schools capital projects and \$5.2 million for general government infrastructure projects. Please refer to Note 11 of this report for details of all designations.

General Fund

The General Fund is the chief operating fund of the City. The following graph and table present a five-year summary of financial information for expenses, revenues and undesignated fund balance as well as a FY 2006 summarized comparison of budget versus actual information.

Five-Year General Fund Financial Summary



General Fund Budgetary Highlights
For Fiscal Year Ended June 30, 2006
(in millions)

<u>Description</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Amended versus Actual</u>
<u>Revenues & Other Financing Sources</u>				
Taxes	\$ 94.8	\$ 101.4	\$ 103.0	\$ 1.6
Intergovernmental	29.4	31.3	30.4	(0.9)
Other	11.0	23.4	23.9	0.5
Total	135.2	156.1	157.3	1.2
<u>Expenditures & Other Financing Uses</u>				
Expenditures	130.3	151.8	140.8	11.0
Transfers	5.3	6.4	6.2	0.2
Total	135.6	158.2	147.0	11.2
<u>Change in Fund Balance</u>	<u>\$ (0.4)</u>	<u>\$ (2.1)</u>	<u>\$ 10.3</u>	<u>\$ 12.4</u>

Actual expenditures and other financing uses of \$147 million were less than revenues and other financing sources of \$157.3 million by \$10.3 million.

Actual revenues were greater than estimated and within 0.8%, or \$1.2 million, of the amended budget; however, the taxes category realized \$1.6 million more revenue. The largest increase of \$0.9 million was due to greater than anticipated local personal property tax. Business license revenue performed better than originally estimated by \$0.4 million due to increased assessments and an influx of new businesses. Consumer utility taxes realized a \$0.6 million reduction in revenue, which resulted from a billing correction for Verizon Va., Inc., decreased usage of telephone landlines, and a diminished consumption of gas due to mild winter weather. Local sales and meals tax performed better than originally estimated by \$0.9 million due to increased consumer spending. Intergovernmental revenue was less than anticipated in the budget by \$0.9 million primarily due to \$0.5 million less from the Commonwealth of Virginia PPTRA reimbursement. The \$0.5 million Other category revenue was largely due to investment earnings with higher yields and expansion of the City's investment program.

Actual expenditures and transfers were \$11.2 million less than the FY 2006 amended budget and attributable to the following unexpended appropriations:

- \$0.9 million for general government and judicial
- \$6.6 million for education one-time expenditures. This is based on a City/Schools agreement to return unexpended Schools funds at fiscal year end to the General Fund for subsequent fiscal year re-appropriation to the Schools for one-time expenditures.
- \$0.9 million for public safety
- \$0.1 million for public works
- \$1.0 million for health and human services
- \$0.3 million for recreation and community planning
- \$1.4 million for debt service and issuance costs

Community Development expenditures exceeded the budget due to a FY 2006 Greater Lynchburg Transit Company operating deficit of \$167,538. The City Council allocated funds of \$173,013 in early FY 2007 to fund this deficit. The deficit is the result of higher than anticipated fuel costs and increased maintenance costs for the bus fleet.

City Council appropriated \$1.2 million for a contingency reserve and authorized 57%, or \$0.7 million in expenditures, for public safety, elderly and disabled real estate tax relief, voting machines, transportation, and community development. The remaining 43%, or \$0.5 million, reverted to undesignated fund balance.

From the original budget of \$135.6 million, City Council approved budget amendments of 17%, or \$22.6 million, resulting in an amended budget of \$158.2 million. The budget amendments were primarily for the following purposes:

- \$0.8 million for staff compensation
- \$1.7 million for prior year unexpended items requested to be re-appropriated in the current year to continue programs
- \$0.6 million for the recreation budget
- \$12.2 for debt retirement (\$7.5 million in Schools' BANS and \$4.1 million as a line of credit facility pay off) and issuance costs
- \$6.2 million for third quarter budget amendment requests. Each fiscal year, management reviews current year expenditures and revenue collection patterns and presents to City Council a third quarter budget amendment. The FY 2006 amendment was comprised primarily of \$5.2 million for the Schools based on the agreement to re-appropriate: unexpended prior year funds, \$0.3 million for industrial development, and \$0.3 million for public safety expenditures.

Proprietary Funds

The proprietary funds are comprised of solid waste management, water, sewer, airport, and fleet services. The City accounts for the solid waste management, water, sewer, and airport as enterprise funds and fleet services as an internal service fund. In the budgetary management of the enterprise funds, the City has chosen to budget for principal retirement on long-term debt rather than depreciation. Further, the City uses two key financial indicators, fund balance and debt coverage ratios, found in financial policies adopted by City Council to ensure the enterprise funds' financial stability. At the fund level, debt coverage is defined as the number of times debt service is covered by net income. Net income is calculated as operating income plus depreciation and amortization plus interest income. Fund balance is defined as total cash less unexpended bond proceeds, customer deposits, and resources dedicated to capital projects. The fund balance ratio is determined by comparing this fund balance amount to operating expenses, exclusive of depreciation and inclusive of principal and interest debt service payments for the fiscal year.

Water Fund

The Water Fund's total net assets of \$33.2 million increased 4%, or \$1.2 million, from FY 2005. Net assets invested in capital, net of debt, of \$27.8 million increased 8%, or \$2 million, and were 84% of total net assets. The Abert Water Treatment Plant rehabilitation project was completed and the water tanks rehabilitation project continued. Unrestricted net assets available to fund future expenses decreased by 13%, or \$0.8 million, due to the result of operations as noted and the use of pay-as-you go local funds for capital projects. Unrestricted net assets were 16%, or \$5.4 million, of total net assets. Operating revenues totaled \$10.4 million and increased 9%, or \$0.9 million, due to a 4% rate increase effective July 1, 2005. Operating expenses totaled \$8 million and increased 4%, or \$0.3 million, due to increased costs in chemicals, fuel, fiber optics installation to pump stations, and ongoing conversion to meters with radio reading capability in lieu of manually read meters. The fund balance of \$3.6 million resulted in a fund balance ratio of 40%, which met City Council's financial policy target of 40%. The debt coverage ratio was 1.57, which compared favorably to City Council's adopted financial policy target of 1.2.

Sewer Fund

The Sewer Fund's total net assets of \$87.4 million increased 6%, or \$5.1 million, from FY 2005. Net assets invested in capital, net of debt, of \$73.6 million increased 6%, or \$4.4 million, due to completion of Combined Sewer Overflow projects and \$9.6 million of VRL Program new long-term debt. Net assets invested in capital were 84% of total net assets. Unrestricted net assets available to fund future expenses increased by 5%, or \$0.6 million, due to the results of operations as noted. Unrestricted net assets were 16%, or \$13.8 million, of total net assets. Operating revenues totaled \$15.4 million and increased 5%, or \$0.7 million, due to a 4% rate increase effective July 1, 2005. Operating expenses totaled \$10.5 million and increased 6%, or \$0.6 million, due to \$0.3 million in increased maintenance costs and \$0.2 million in increased depreciation expense. The fund balance of \$3.8 million resulted in a fund balance ratio of 30%, which compared favorably to City Council's financial policy target of 25%. The debt coverage ratio was 1.53, which compared favorably to City Council's adopted financial policy target of 1.2 and the CSO Order requirements. Please refer to the Statistical Section of this report for details.

Airport Fund

The Airport Fund's total net assets of \$23.7 million increased 2%, or \$0.4 million, from FY 2005. Unrestricted net assets available to fund future expenses increased 39%, or \$0.5 million, due to the accumulation of state entitlement and Passenger Facility Charge funds for a FY 2007 runway extension project. Unrestricted net assets were 8%, or \$1.8 million, of total net assets. Operating revenues totaled \$1.9 million, an increase of 12%, or \$0.2 million, due primarily to increased Parking and Rental Car concessions revenues. Operating expenses totaled \$3.4 million and increased 3%, or \$0.1 million, mainly due to start-up of a contract firefighters operation. Capital contributions totaled \$1.2 million, which was unchanged from FY 2005.

Solid Waste Management Fund

The Solid Waste Management Fund's total net assets of \$13.2 million increased 29%, or \$3.0 million, from FY 2005. Unrestricted net assets available to fund future expenses increased 35%, or \$2.8 million, and were 82%, or \$10.8 million, of total net assets. Operating revenues totaled \$7.2 million and increased 3%, or \$0.2 million, due to increased revenues of \$0.2 million from private and industrial contract haulers. Operating expenses totaled \$4.8 million and decreased 4%, or \$0.2 million, primarily due to reductions in landfill closure/post closure care costs. The fund balance of \$6.7 million resulted in a fund balance ratio of 93%. This ratio compared favorably to City Council's financial policy target of 40%. Additionally, the debt coverage ratio was 2.85, which compared favorably to City Council's adopted financial policy target of 1.2. These favorable policy targets are part of an overall plan for Solid Waste Management to ensure that debt is fully retired when the current landfill reaches maximum capacity and to provide the necessary capital funding to support the ongoing effort to create a regional authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of depreciation, were \$489.8 million as reflected in the following schedule. The Schools had \$2 million in capital assets exclusive of buildings and facilities, which are capitalized as the City's assets.

Capital Assets As of June 30, 2006/2005 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change	Component Unit Schools	
	2006	2005	2006	2005	2006	2005	2006-2005	2006	2005
Capital assets, not depreciated:									
Land	\$ 8.8	\$ 8.6	\$ 5.6	\$ 5.6	\$ 14.4	\$ 14.2	1.41%	\$ -	\$ -
Construction in progress	12.4	13.1	26.5	26.8	38.9	39.9	-2.51%	-	-
Capital assets, depreciated:									
Land improvements	9.7	7.9	15.5	15.5	25.2	23.4	7.69%	-	-
Buildings and improvements	177.3	170.4	35.8	35.6	213.1	206.0	3.45%	-	-
Infrastructure	189.5	186.3	247.2	232.9	436.7	419.2	4.17%	-	-
Machinery and equipment	30.8	29.6	11.3	14.4	42.1	44.0	-4.32%	6.6	6.3
Less: Accumulated depreciation	(177.7)	(166.8)	(102.9)	(98.0)	(280.6)	(264.8)	5.97%	(4.6)	(4.3)
Total Capital Assets	<u>\$ 250.8</u>	<u>\$ 249.1</u>	<u>\$ 239.0</u>	<u>\$ 232.8</u>	<u>\$ 489.8</u>	<u>\$ 481.9</u>	<u>1.64%</u>	<u>\$ 2.0</u>	<u>\$ 2.0</u>

As demonstrated in the previous table, during FY 2006, the City's net increase in capital assets was 1.64%, or \$7.9 million. Major capital asset events included the following (in millions):

Construction in progress converted to capital assets:

Completion of several Combined Sewer Overflow (CSO) replacement projects, financed by a combination of VRL Program funds, state and federal CSO grants, and general obligation bonds.	\$ 11.0
Substantial completion of extensive renovations to E. C. Glass High School, financed by a Virginia Public School Authority bond, historical tax credits, state lottery funds, state construction funds, and general obligation bonds. During FY 2004 and FY 2005, \$18.2 million of this project was completed.	8.5
Completion of various street and bridge improvements including Cranehill Drive bridge and Thomas Road, Wards Road and Irvington Springs Road improvements, financed by general obligation bonds.	2.3
Completion of the Abert Water Treatment Plant rehabilitation project, financed by general obligation bonds.	1.9
Completion of the roof replacement at Sandusky Middle School, financed by general obligation bonds.	0.6
Completion of additional work related to Monument Terrace renovations, financed by general obligation bonds.	0.5
<u>Total construction in progress converted to capital assets</u>	<u>24.8</u>
Ongoing replacement of the vehicle fleet, financed through local operating monies.	1.5
Replacement of fire trucks, financed through general obligation bonds.	<u>0.3</u>
<u>Total major asset events</u>	\$ <u>26.6</u>

Construction in progress at the end of FY 2006 included additional CSO abatement projects, water tank rehabilitation projects, construction of additional T-Hangars at Lynchburg Regional Airport, improvements to the athletic fields at Heritage High School, Old Graves Mill Road construction, and a variety of other building, street, bridge, water, sewer and recreation projects. Additional information on the City's capital assets is in Note 8 of this report.

Long-term Debt

Total outstanding debt was \$271.8 million with \$144.5 million of business-type activities debt supported by the individual funds, resulting in net bonded debt for governmental activities of \$127.3 million. Capital leases of \$1.4 million for the regional radio system joint venture and \$5.9 million for the human services facility were included, while liabilities for compensated absences and workers' compensation of \$4.8 million and landfill closure liability of \$2.8 million were excluded.

Long-term Debt Obligations As of June 30, 2006/2005 (in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
General Obligation Bonds	\$ 116.7	\$ 94.0	\$ 57.5	\$ 61.9	\$ 174.2	\$ 155.9	11.74%
Revenue Bonds	-	-	70.5	63.5	70.5	63.5	11.02%
Literary Bonds	0.1	0.1	-	-	0.1	0.1	0.00%
General Obligation Notes	-	7.5	16.5	-	16.5	7.5	120.00%
Note Payable	3.2	3.2	-	-	3.2	3.2	0.00%
Capital Lease	7.3	7.8	-	-	7.3	7.8	-6.41%
Total	<u>\$ 127.3</u>	<u>\$ 112.6</u>	<u>\$ 144.5</u>	<u>\$ 125.4</u>	<u>\$ 271.8</u>	<u>\$ 238.0</u>	<u>14.20%</u>

Total new debt of \$56.3 million was issued, of which \$29.6 million was for governmental activities and \$26.7 million was for business-type activities. Governmental activities new long-term debt of \$29.6 million consisted of \$23.2 million from general obligation bonds and \$6.4 million of a Virginia Public School Authority (VPSA) bond to advance refund \$7.5 million in two-year bond anticipation notes (BANS). The \$23.2 million of general obligation bonds were issued for \$15.2 million of general government capital projects, \$6 million for school capital projects, and \$2 million for Fleet public safety capital equipment. Business-type activities new long-term debt of \$26.7 million consisted of \$9.6 million from the Virginia Revolving Loan Program (VRL) for CSO sewer capital projects; \$0.6 million of general obligation bonds for airport capital projects; and two-year BANS of \$16.5 million, allocated as \$10 million for water capital projects and \$6.5 million for sewer capital projects.

The City retired \$22.5 million of outstanding principal, which included advance refunded debt of \$7.5 million and \$15 million of planned retirements. The governmental activities advance refunded debt consisted of \$7.5 million for two-year BANS for E. C. Glass High School renovations. The BANS were advance refunded and these renovations permanently financed with a \$6.4 million VPSA bond, \$0.4 million of VPSA bond premium, and \$0.7 million of VPSA Subsidy Loan Program funds. The planned retirements were \$7.4 million for governmental activities and \$7.6 million for business-type activities. During FY 2006, the City utilized \$4.4 million of its interim financing line of credit facility for governmental activities projects, which were \$0.3 million for Fleet capital equipment, \$3.2 million for Schools, and \$0.9 million for general government. New general obligation bond proceeds noted above completely paid the line of credit balance. The use of the line of credit is excluded from the new debt issue and retirement amounts noted above.

The City's general obligation bonds continued to maintain an Aa3 rating from Moody's Investors Service, an AA rating from Standard and Poor's Rating Service, and an AA rating from Fitch Investors. A City Council-adopted policy provides that tax-supported debt should not exceed 5% of net assessed valuation of taxable property in the City. As of the end of FY 2006, outstanding tax-supported debt was 2.7% of net assessed valuation. Detailed information on the City's long-term debt is included in Note 9 of this report.

ECONOMIC FACTORS

The City's unemployment rate for June 2006 was 4%, which was 1.2% less than the same period in FY 2005. This compares to the state's unemployment rate of 3.3% and the national average rate of 4.8% for June 2006.

The City is a regional commercial center and retail businesses, stores, and restaurants continue to thrive in the Route 29 corridor. The City experienced tax growth in the areas of sales, meals, business licenses, and franchise taxes again in FY 2006.

Economic development initiatives continue to draw new businesses, particularly in the downtown area and industrial parks, which are designated as Enterprise Zones and Technology Zones. Several businesses and industries, such as Areva, Central Virginia Imaging, RR Donnelley, and the News and Advance, expanded facilities and operations resulting in private investments of \$54.5 million and the creation of 174 new jobs. Additionally, the City, in partnership with Campbell County, began developing an Airport Commerce Park with 252 total acres adjacent to Lynchburg Regional Airport.

A number of public-private redevelopment efforts are underway in the downtown business district. Altogether, nearly \$100 million will be invested between 2001 and 2006 to renovate existing historical structures, build new facilities, and improve public infrastructure, parks, and streetscapes. Construction continued on new lodging, dining, and meeting facilities to be provided in two restored buildings known as the BluffWalk Center. With completion expected in the spring of 2007, the complex will include a forty-three room boutique hotel, conference center, casual restaurant, and microbrewery. Several new loft apartment housing projects began construction in FY 2006. One project, City Market Lofts, is located adjacent to the City's Community Market. The project will include 12,500 square feet of retail/office space in addition to rental lofts. In October 2005, City Council approved an amendment to the City's Comprehensive Plan to incorporate the Midtown Area Plan. The plan includes policy recommendations, regulatory changes, public-private partnerships, neighborhood revitalization mechanisms, economic development goals, and business recruitment and retention strategies for implementation. In FY 2006, City Council approved the Fifth Street Corridor Plan, which provides an important link between the Downtown/Riverfront and Midtown areas of the City.

For FY 2007, the Adopted General Fund Budget included funding of \$1.5 million for a 3% (average) compensation adjustment for City employees based on performance. A performance-based pay was adopted by City Council in November 2003 in accordance with the City's Compensation Philosophy. The adopted budget included \$481,000 of employee benefit premiums for the Virginia Retirement System (VRS) life insurance coverage. This premium has not been required by VRS since FY 2003. In addition, a 15% increase in premiums for health and dental coverage for City employees and retirees was included in the Adopted General Fund Budget.

With an additional \$7.5 million projected to be received by the Schools from the State, a 4%, or \$1.3 million, decrease in the local appropriation to the Schools was adopted.

Other than the 4% rate increases for water and sewer services noted previously, there were no additional increases in tax rates or fees.

For FY 2006, the City's Solid Waste Management, Water, and Sewer Funds met or exceeded City Council's financial policy targets. Adopted financial policies require rate reviews a minimum of every two years for the Solid Waste Management, Water, and Sewer Funds. Typically, rates for the Water and Sewer Funds are reviewed annually with necessary changes implemented at the beginning of each fiscal year. The 4% water and sewer volume rates were the only increases in FY 2006. Because of FY 2003 City Council action, the Solid Waste Management Fund maintained a strong financial condition with no rate or fee increases. Additional reserves will be dedicated to possible expenses related to the initiative to regionalize the solid waste disposal operations of the Region 2000 localities and Nelson County. The previously established reserve for landfill expansion will be supplemented by other funds from net assets with an ultimate goal of establishing a reserve of \$3-4 million. The goal is to avoid the creation of debt when addressing any capital costs related to the regionalization of area landfills.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, City of Lynchburg, 900 Church Street, Lynchburg, VA, 24504, or via telephone at 434-455-3968. This report, the FY 2006 Operating and Capital Budgets, and FY 2006-2010 Capital Improvement Program are on the City's web site at www.lyncburgva.gov.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2006

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units		Total Reporting Unit
				Schools	Other	
Assets						
Cash and cash equivalents	\$ 36,911,603	\$ 13,680,701	\$ 50,592,304	\$ 15,325,087	\$ 667,464	\$ 66,584,855
Investments	4,037,844	14,694,911	18,732,755	-	-	18,732,755
Receivables, net	15,069,389	4,008,617	19,078,006	304,240	592,627	19,974,873
Due from primary government	-	-	-	-	184,254	184,254
Due from other governments	2,828,451	16,693,695	19,522,146	2,726,279	202,696	22,451,121
Internal balances	2,610,885	(2,610,885)	-	-	-	-
Due from component units	6,718,417	-	6,718,417	-	-	6,718,417
Inventory	74,696	365,000	439,696	64,731	124,317	628,744
Prepays and other assets	3,200,213	-	3,200,213	-	14,216	3,214,429
Restricted assets:						
Cash and cash equivalents	13,161,996	15,274,625	28,436,621	172,424	-	28,609,045
Due from other governments	-	5,088,467	5,088,467	-	-	5,088,467
Deferred debt charges	1,774,939	1,482,620	3,257,559	-	-	3,257,559
Capital assets, net of accumulated depreciation:						
Land and improvements	16,139,384	9,226,745	25,366,129	-	63,152	25,429,281
Buildings and improvements	98,369,150	21,355,584	119,724,734	-	438,883	120,163,617
Machinery and equipment	15,060,584	3,417,619	18,478,203	1,991,421	2,694,694	23,164,318
Construction in progress	12,375,203	25,397,979	37,773,182	-	-	37,773,182
Infrastructure	108,882,074	179,565,612	288,447,686	-	-	288,447,686
Total assets	337,214,828	307,641,290	644,856,118	20,584,182	4,982,303	670,422,603
Liabilities						
Accounts payable and other liabilities	9,317,131	2,543,605	11,860,736	9,822,153	883,531	22,566,420
Accrued interest payable	1,181,500	736,809	1,918,309	-	-	1,918,309
Due to primary government	-	-	-	6,573,417	145,000	6,718,417
Due to component unit	184,254	-	184,254	-	-	184,254
Unearned revenue	6,534,130	-	6,534,130	10,712	-	6,544,842
Liabilities payable from restricted assets	171,844	321,387	493,231	-	-	493,231
Noncurrent liabilities						
Due within one year	9,176,427	7,868,724	17,045,151	738,722	-	17,783,873
Due in more than one year	124,785,399	140,959,737	265,745,136	1,960,955	391,304	268,097,395
Total liabilities	151,350,685	152,430,262	303,780,947	19,105,959	1,419,835	324,306,741
Net assets						
Invested in capital assets, net of related debt	139,205,720	125,543,179	264,748,899	212,009	3,190,702	268,151,610
Restricted net assets	-	312,049	312,049	-	1,485	313,534
Unrestricted	46,658,423	29,355,800	76,014,223	1,266,214	370,281	77,650,718
Total net assets	\$ 185,864,143	\$ 155,211,028	\$ 341,075,171	\$ 1,478,223	\$ 3,562,468	\$ 346,115,862

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT 2

Statement of Activities
For the Fiscal Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Total Reporting Unit
Primary government:								
Governmental activities:								
General government	\$ 11,258,752	\$ 466,636	\$ 318,469	\$ -	\$ (10,473,647)	\$ -	\$ (10,473,647)	\$ (10,473,647)
Judicial	5,099,725	741,266	3,166,541	-	(1,191,918)	-	(1,191,918)	(1,191,918)
Public safety	39,639,402	4,917,707	3,633,462	-	(31,088,233)	-	(31,088,233)	(31,088,233)
Public works	20,760,247	185,474	8,525,059	536,076	(11,513,638)	-	(11,513,638)	(11,513,638)
Health and human services	21,054,773	1,685,316	14,043,286	-	(5,326,171)	-	(5,326,171)	(5,326,171)
Cultural and recreational	8,943,345	1,810,243	224,320	50,500	(6,858,282)	-	(6,858,282)	(6,858,282)
Community development	6,469,555	1,093,999	2,564,670	-	(2,810,886)	-	(2,810,886)	(2,810,886)
Education	32,618,426	-	-	1,849,352	(30,769,074)	-	(30,769,074)	(30,769,074)
Interest payments and other fiscal charges	4,999,355	-	-	-	(4,999,355)	-	(4,999,355)	(4,999,355)
Issuance costs	173,943	-	-	-	(173,943)	-	(173,943)	(173,943)
Total governmental activities	151,017,523	10,900,641	32,475,807	2,435,928	(105,205,147)	-	(105,205,147)	(105,205,147)
Business-type activities:								
Solid Waste Management	5,599,954	7,219,229	204,134	-	-	1,823,409	1,823,409	1,823,409
Airport	3,505,550	1,762,826	173,167	1,532,335	-	(37,222)	(37,222)	(37,222)
Water	9,273,940	10,352,303	-	-	-	1,078,363	1,078,363	1,078,363
Sewer	12,431,230	15,405,174	38,500	1,534,561	-	4,547,005	4,547,005	4,547,005
Total business-type activities	30,810,674	34,739,532	415,801	3,066,896	-	7,411,555	7,411,555	7,411,555
Total primary government	\$ 181,828,197	\$ 45,640,173	\$ 32,891,608	\$ 5,502,824	(105,205,147)	7,411,555	(97,793,592)	(97,793,592)
Component units:								
Schools	\$ 81,874,626	\$ 1,694,519	\$ 49,333,149	\$ -	-	-	(30,846,958)	(30,846,958)
Greater Lynchburg Transit Company	5,340,447	989,266	3,184,146	315,377	-	-	(851,658)	(851,658)
Business Development Centre	429,546	286,348	149,813	-	-	-	6,615	6,615
Total component units	\$ 87,644,619	\$ 2,970,133	\$ 52,667,108	\$ 315,377	-	-	(845,043)	(31,692,001)
General revenues:								
Property taxes					60,191,431	-	60,191,431	60,191,431
Local sales and use tax					13,319,691	-	13,319,691	13,319,691
Meals taxes					9,423,830	-	9,423,830	9,423,830
Consumer utility taxes					6,840,948	-	6,840,948	6,840,948
Business license taxes					7,675,284	-	7,675,284	7,675,284
Other taxes					6,794,113	-	6,794,113	6,794,113
Unrestricted intergovernmental					9,434,886	-	9,434,886	9,434,886
Interest					1,248,981	33,366	33,366	33,366
Miscellaneous					3,034,686	-	3,034,686	3,034,686
Gain on sale of assets					83,078	494,353	10,476	2,193,166
City appropriation					1,605,259	-	1,688,337	887
Transfers					-	-	-	-
					(304,924)	304,924	-	-
Total general revenues and transfers					116,766,223	1,636,983	30,422,482	148,837,051
Changes in net assets					11,561,076	9,048,538	(424,476)	19,351,458
Net assets - beginning, as restated (Note 19)					174,303,067	146,162,490	1,902,699	326,764,404
Net assets - ending					\$ 185,864,143	\$ 155,211,028	\$ 1,478,223	\$ 346,115,862

The Notes to the Financial Statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 28,987,801	\$ 7,062,169	\$ 36,049,970
Investments	1,077,874	2,959,970	4,037,844
Receivables, net of allowance			
Taxes excluding penalties	7,136,317	-	7,136,317
Accounts	6,657,945	-	6,657,945
Other	145,454	1,099,615	1,245,069
Due from other funds	693,349	-	693,349
Due from component unit	6,573,417	145,000	6,718,417
Due from other governments	1,313,900	1,514,551	2,828,451
Other assets	-	213	213
Advance to other funds	124,691	-	124,691
Restricted assets:			
Cash and cash equivalents	404,923	11,214,519	11,619,442
Total assets	\$ 53,115,671	\$ 23,996,037	\$ 77,111,708
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 1,817,512	\$ 2,356,200	\$ 4,173,712
Accrued liabilities	4,589,834	29,215	4,619,049
Retainage payable	8,401	360,614	369,015
Due to other governments	58,573	1,451	60,024
Due to component unit	184,254	-	184,254
Due to other funds	-	465,554	465,554
Deposits payable from restricted assets	171,844	-	171,844
Deferred revenue	9,498,704	74,013	9,572,717
Advance from other funds	-	124,691	124,691
Total liabilities	16,329,122	3,411,738	19,740,860
Fund balances:			
Reserved for:			
Encumbrances	879,657	6,187,005	7,066,662
Advances	-	500,000	500,000
Unreserved:			
Designated	9,918,727	-	9,918,727
Undesignated	25,988,165	-	25,988,165
Unreserved, reported in special revenue			
Designated	-	289,862	289,862
Undesignated	-	3,781,906	3,781,906
Unreserved, reported in capital projects			
Designated	-	526,302	526,302
Undesignated	-	9,299,224	9,299,224
Total fund balances	36,786,549	20,584,299	57,370,848
Total liabilities and fund balances	\$ 53,115,671	\$ 23,996,037	\$ 77,111,708

The Notes to the Financial Statements are
an integral part of this statement.

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006**

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds		\$ 57,370,848
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	250,826,395	
Less: Internal service capital assets	<u>(10,970,592)</u>	
		239,855,803
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		6,238,583
Internal service funds activity that has been allocated to the user departments.		2,401,120
Internal service funds are used by management to charge the costs of vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		9,972,391
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	(117,323,573)	
Accrued interest payable	(1,181,500)	
Capital leases payable	(7,287,252)	
Notes payable	(3,200,000)	
Compensated absences	(3,451,825)	
Workers' compensation	(774,963)	
Arbitrage liability	<u>(18,872)</u>	
	(133,237,985)	
Add back: Internal Service bonds payable	3,200,912	
Add back: Internal Service accrued interest payable	30,140	
Add back: Internal Service arbitrage liability	1,957	
Add back: Internal Service compensated absences	<u>30,374</u>	<u>(129,974,602)</u>
Net assets of governmental activities		<u>\$ 185,864,143</u>

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 103,012,216	\$ 974,621	\$ 103,986,837
Regulatory licenses, permits and privilege fees	1,025,782	-	1,025,782
Intergovernmental	30,391,990	13,244,183	43,636,173
Fines and forfeitures	593,518	-	593,518
Revenue from use of money and property	2,130,172	962,088	3,092,260
Charges for services	7,376,311	2,986,236	10,362,547
Miscellaneous	1,261,164	897,454	2,158,618
Total revenues	145,791,153	19,064,582	164,855,735
Expenditures			
Current operating expenditures			
General government	13,176,072	405,140	13,581,212
Judicial	3,827,095	1,079,022	4,906,117
Public safety	32,782,350	5,062,707	37,845,057
Public works	11,801,684	3,144,603	14,946,287
Health and human services	16,111,220	4,703,851	20,815,071
Cultural and recreational	6,926,949	1,388,429	8,315,378
Community development	3,559,260	2,774,050	6,333,310
Education	29,894,763	188,692	30,083,455
Capital outlay			
Capital general government	-	11,886,863	11,886,863
Debt service			
Principal retirements	18,326,124	543,883	18,870,007
Interest payments and other fiscal charges	4,273,525	280,859	4,554,384
Issuance costs	146,165	27,778	173,943
Total expenditures	140,825,207	31,485,877	172,311,084
Excess (deficiency) of revenues over expenditures	4,965,946	(12,421,295)	(7,455,349)
Other financing sources (uses)			
Issuance of bonds	10,644,739	21,080,955	31,725,694
Premium on debt proceeds	361,837	370,649	732,486
Transfers in	504,783	4,465,207	4,969,990
Transfers out	(6,178,901)	(715,720)	(6,894,621)
Total other financing sources (uses)	5,332,458	25,201,091	30,533,549
Net changes in fund balances	10,298,404	12,779,796	23,078,200
Fund balances - beginning	26,488,145	7,804,503	34,292,648
Fund balances - ending	\$ 36,786,549	\$ 20,584,299	\$ 57,370,848

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities
Year Ended June 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 23,078,200
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components.

Capital outlay	13,958,226
Depreciation expense	(11,738,252)

The net effect of various miscellaneous transactions involving capital assets (sales, reduction in construction in progress, donated asset) is to decrease net assets.	(348,682)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	356,202
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	(13,637,676)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(599,920)
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To eliminate transfers to the internal service fund	1,619,707
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The net loss of certain activities of the internal service fund is reported with governmental activities.	(1,126,729)
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Change in net assets of governmental activities.	<u><u>\$ 11,561,076</u></u>
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Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 94,816,854	\$ 101,425,719	\$ 103,012,216	\$ 1,586,497
Regulatory licenses, permits and privilege fees	692,054	885,914	1,025,782	139,868
Intergovernmental	29,380,671	31,287,954	30,391,990	(895,964)
Fines and forfeitures	540,000	550,000	593,518	43,518
Revenue from use of money and property	983,000	1,383,005	2,130,172	747,167
Charges for services	7,812,034	7,728,004	7,376,311	(351,693)
Miscellaneous	333,969	963,274	1,261,164	297,890
Total revenues	134,558,582	144,223,870	145,791,153	1,567,283
Expenditures				
Current operating expenditures				
General government	13,395,010	14,116,028	13,176,072	939,956
Judicial	3,784,753	3,929,966	3,827,095	102,871
Public safety	32,761,897	33,686,946	32,782,350	904,596
Public works	11,636,578	11,931,921	11,801,684	130,237
Health and human services	15,661,139	17,097,479	16,111,220	986,259
Cultural and recreational	7,184,865	7,359,582	6,926,949	432,633
Community development	3,032,016	3,411,282	3,559,260	(147,978)
Education	31,279,814	36,468,180	29,894,763	6,573,417
Debt service				
Principal retirements	6,552,911	18,552,911	18,326,124	226,787
Interest payments and other fiscal charges	5,029,363	5,106,273	4,273,525	832,748
Issuance costs	-	160,282	146,165	14,117
Total expenditures	130,318,346	151,820,850	140,825,207	10,995,643
Excess (deficiency) of revenues over expenditures	4,240,236	(7,596,980)	4,965,946	12,562,926
Other financing sources (uses)				
Issuance of bonds	-	11,102,022	10,644,739	(457,283)
Premium on debt proceeds	-	361,837	361,837	-
Transfers in	618,129	474,087	504,783	30,696
Transfers out	(5,258,871)	(6,395,692)	(6,178,901)	216,791
Total other financing sources (uses)	(4,640,742)	5,542,254	5,332,458	(209,796)
Net changes in fund balances	(400,506)	(2,054,726)	10,298,404	12,353,130
Fund balances - beginning	26,488,145	26,488,145	26,488,145	-
Fund balances - ending	\$ 26,087,639	\$ 24,433,419	\$ 36,786,549	\$ 12,353,130

Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds					
	Solid Waste Management	Water	Sewer	Airport	Total	Internal Service
Assets						
Current assets:						
Cash and cash equivalents	\$ 2,632,235	\$ 2,925,910	\$ 6,187,615	\$ 1,934,941	\$ 13,680,701	\$ 861,633
Investments	10,420,312	2,293,502	1,981,097	-	14,694,911	-
Receivables, net of allowance						
Accounts	881,216	1,164,817	1,793,270	30,261	3,869,564	-
Other	-	6,349	91,179	41,525	139,053	30,058
Due from other governments	-	-	168,295	113,615	281,910	-
Inventory	-	365,000	-	-	365,000	74,696
Due from members - Regional Sewage Treatment Plant	-	-	385,623	-	385,623	-
Total current assets	13,933,763	6,755,578	10,607,079	2,120,342	33,416,762	966,387
Noncurrent assets:						
Due from other governments	-	-	16,026,162	-	16,026,162	-
Due from members - Regional Sewage Treatment Plant	-	-	5,088,467	-	5,088,467	-
Restricted assets:						
Cash and cash equivalents	-	8,808,205	5,911,344	555,076	15,274,625	1,542,554
Deferred debt charges	246,450	528,399	648,312	59,459	1,482,620	-
Capital assets, net of accumulated depreciation:	7,627,137	50,438,620	156,787,824	24,109,958	238,963,539	10,970,592
Total noncurrent assets	7,873,587	59,775,224	184,462,109	24,724,493	276,835,413	12,513,146
Total assets	21,807,350	66,530,802	195,069,188	26,844,835	310,252,175	13,479,533
Liabilities						
Current liabilities:						
Accounts payable	114,839	632,060	1,141,864	151,634	2,040,397	221,196
Accrued liabilities	22,976	45,555	29,901	11,703	110,135	8,178
Accrued interest payable	69,654	266,256	375,487	25,412	736,809	30,140
Retainage payable	-	114,055	235,607	76,181	425,843	-
Due to other governments	11	13,747	9,293	727	23,778	1,957
Due to other funds	53,410	82,393	52,009	21,953	209,765	18,030
Current portion of general obligation bonds	864,267	1,679,841	2,386,638	306,408	5,237,154	183,992
Current portion of public utility revenue bonds	-	-	2,557,922	-	2,557,922	-
Current portion of landfill post closure liability	17,100	-	-	-	17,100	-
Total current liabilities	1,142,257	2,833,907	6,788,721	594,018	11,358,903	463,493
Noncurrent liabilities:						
Deposits payable from restricted assets	-	321,387	-	-	321,387	-
Self insurance claims	25,651	32,580	15,049	-	73,280	-
Compensated absences	76,541	134,390	81,463	44,047	336,441	26,729
General obligation BANS	-	10,000,000	6,500,000	-	16,500,000	-
General obligation bonds	4,541,882	19,968,596	26,314,678	2,465,336	53,290,492	3,016,920
Public utility revenue bonds	-	-	67,984,763	-	67,984,763	-
Landfill closure and post closure liability	2,774,761	-	-	-	2,774,761	-
Total noncurrent liabilities	7,418,835	30,456,953	100,895,953	2,509,383	141,281,124	3,043,649
Total liabilities	8,561,092	33,290,860	107,684,674	3,103,401	152,640,027	3,507,142
Net Assets						
Invested in capital assets, net of related debt	2,467,438	27,805,400	73,629,641	21,640,700	125,543,179	9,312,234
Restricted	-	-	-	312,049	312,049	-
Unrestricted	10,778,820	5,434,542	13,754,873	1,788,685	31,756,920	660,157
Total net assets	\$ 13,246,258	\$ 33,239,942	\$ 87,384,514	\$ 23,741,434	157,612,148	\$ 9,972,391
Reconciliation with business type activities in the statement of net assets:						
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(2,401,120)	
Total net assets of business type activities					\$ 155,211,028	

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds					
	Solid Waste Management	Water	Sewer	Airport	Total	Internal Service
Operating revenues						
Charges for services and other operating revenues	\$ 7,219,229	\$ 10,352,303	\$ 15,405,174	\$ 1,762,826	\$ 34,739,532	\$ 2,213,788
Intergovernmental	-	-	-	146,198	146,198	-
Total operating revenues	7,219,229	10,352,303	15,405,174	1,909,024	34,885,730	2,213,788
Operating expenses						
Personal services and benefits	1,780,192	2,953,729	1,919,958	795,052	7,448,931	626,490
Operation and maintenance	539,736	1,052,595	1,942,779	695,575	4,230,685	1,544,961
Supplies and materials	675,795	833,802	836,684	111,521	2,457,802	49,015
Administration	968,816	1,359,399	1,798,976	231,161	4,358,352	2,645
Landfill closure and postclosure care	(10,680)	-	-	-	(10,680)	-
Other charges	45,333	68,637	40,887	17,678	172,535	23,791
Depreciation	816,017	1,771,749	3,954,820	1,545,339	8,087,925	1,875,149
Total operating expenses	4,815,209	8,039,911	10,494,104	3,396,326	26,745,550	4,122,051
Operating income (loss)	2,404,020	2,312,392	4,911,070	(1,487,302)	8,140,180	(1,908,263)
Nonoperating revenues (expenses)						
Interest income	464,624	264,029	456,342	63,986	1,248,981	11,881
Governmental grants	204,134	-	38,500	26,969	269,603	-
Passenger facility charges	-	-	-	246,981	246,981	-
Miscellaneous	43,347	3,902	29,183	6,646	83,078	203,797
Loss on disposition of assets	(14,922)	(17,683)	(24,334)	-	(56,939)	(57,087)
Interest on long-term debt	(301,809)	(1,135,500)	(1,777,407)	(89,365)	(3,304,081)	(81,161)
Total nonoperating revenues (expenses)	395,374	(885,252)	(1,277,716)	255,217	(1,512,377)	77,430
Income (loss) before contributions and transfers	2,799,394	1,427,140	3,633,354	(1,232,085)	6,627,803	(1,830,833)
Capital contributions	-	-	1,534,561	1,285,354	2,819,915	-
Transfers in	732,529	-	-	398,485	1,131,014	1,619,707
Transfers out	(532,855)	(182,846)	(110,389)	-	(826,090)	-
Change in net assets	2,999,068	1,244,294	5,057,526	451,754	9,752,642	(211,126)
Total net assets - beginning	10,247,190	31,995,648	82,326,988	23,289,680	147,859,506	10,183,517
Total net assets - ending	\$13,246,258	\$ 33,239,942	\$ 87,384,514	\$23,741,434	\$ 157,612,148	\$ 9,972,391
Reconciliation with business type activities in the statement of activities:						
Change in net assets - enterprise funds reported in this statement					\$ 9,752,642	
Internal service fund activity is eliminated for the statement of activities, with residual activity allocated to user departments					(704,104)	
Change in net assets of business-type activities:					\$ 9,048,538	

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds					Internal Service
	Solid Waste Management	Water	Sewer	Airport	Total	
Operating activities						
Cash received from operations	\$ 7,129,683	\$ 10,263,192	\$ 15,386,850	\$ 1,969,517	\$ 34,749,242	\$ 2,213,788
Cash paid to employees	(1,753,397)	(2,965,054)	(1,922,520)	(802,351)	(7,443,322)	(629,103)
Cash paid to suppliers	(2,229,748)	(3,358,448)	(4,631,988)	(984,150)	(11,204,334)	(1,682,289)
Net cash provided from (used in) operating activities	3,146,538	3,939,690	8,832,342	183,016	16,101,586	(97,604)
Noncapital financing activities						
Transfers to other funds	(532,855)	(182,846)	(110,389)	-	(826,090)	-
Transfers from other funds	732,529	29,169	-	398,485	1,160,183	1,619,707
Net cash provided from (used in) noncapital financing activities	199,674	(153,677)	(110,389)	398,485	334,093	1,619,707
Capital and related financing activities						
Proceeds from issuance of long-term debt:						
General obligation bonds	-	-	-	652,199	652,199	2,017,644
Bond Anticipation Notes	-	10,013,991	6,508,944	-	16,522,935	-
Payment of long-term debt:						
General obligation bonds	(1,013,552)	(1,523,091)	(2,210,090)	(297,275)	(5,044,008)	(120,000)
Revenue bonds	-	-	(2,583,272)	-	(2,583,272)	-
Drawdowns of public utility revenue bonds - revolving loan funds	-	-	4,818,630	-	4,818,630	-
Payment of interest on long-term debt	(317,704)	(1,079,954)	(1,355,758)	(88,124)	(2,841,540)	(66,849)
Capital contributions received	-	-	1,884,717	1,235,021	3,119,738	-
Intergovernmental grants	204,134	-	38,500	-	242,634	-
Passenger Facility charges collected	-	-	-	246,981	246,981	-
Proceeds from sale of capital assets	-	-	-	-	-	79,818
Additions to capital assets	(36,880)	(3,843,630)	(9,143,199)	(1,202,711)	(14,226,420)	(1,817,201)
Proceeds from other organizations	43,347	3,887	33,894	7,995	89,123	186,827
Net cash provided from (used in) capital and related financing activities	(1,120,655)	3,571,203	(2,007,634)	554,086	997,000	280,239
Investing activities						
Net purchase of investments	(4,480,103)	(1,298,402)	(988,787)	-	(6,767,292)	-
Interest income received	464,624	264,029	456,342	63,986	1,248,981	11,881
Net cash provided by (used in) investing activities	(4,015,479)	(1,034,373)	(532,445)	63,986	(5,518,311)	11,881
Net increase (decrease) in cash and cash equivalents	(1,789,922)	6,322,843	6,181,874	1,199,573	11,914,368	1,814,223
Cash and cash equivalents						
Beginning	4,422,157	5,411,272	5,917,085	1,290,444	17,040,958	589,964
Ending	<u>\$ 2,632,235</u>	<u>\$ 11,734,115</u>	<u>\$ 12,098,959</u>	<u>\$ 2,490,017</u>	<u>\$ 28,955,326</u>	<u>\$ 2,404,187</u>
Reconciliation to Statement of Net Assets						
Current Assets	\$ 2,632,235	\$ 2,925,910	\$ 6,187,615	\$ 1,934,941	\$ 13,680,701	\$ 861,633
Restricted Assets	-	8,808,205	5,911,344	555,076	15,274,625	1,542,554
	<u>\$ 2,632,235</u>	<u>\$ 11,734,115</u>	<u>\$ 12,098,959</u>	<u>\$ 2,490,017</u>	<u>\$ 28,955,326</u>	<u>\$ 2,404,187</u>

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds					Internal Service
	Solid Waste Management	Water	Sewer	Airport	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES						
Operating income (loss)	\$ 2,404,020	\$ 2,312,392	\$ 4,911,070	\$ (1,487,302)	\$ 8,140,180	\$ (1,908,263)
Adjustments to reconcile operating income (loss) to net cash provided from (used in) operating activities:						
Depreciation	816,017	1,771,749	3,954,820	1,545,339	8,087,925	1,875,149
Amortization of debt related items	23,921	29,989	47,382	3,887	105,179	(1,732)
Landfill closure and postclosure cost	(10,680)	-	-	-	(10,680)	-
Changes in assets and liabilities:					-	
(Increase) decrease in accounts receivable	(89,546)	(89,111)	(18,324)	60,493	(136,488)	-
Decrease in inventory	-	19,364	-	-	19,364	51,129
Increase (decrease) in trade accounts payable	(23,990)	(114,604)	(60,044)	67,898	(130,740)	(113,231)
Increase (decrease) in accrued expenses	31,017	8,080	13,770	4,915	57,782	(265)
Increase (decrease) in due to other funds	(4,222)	(19,405)	(16,332)	(12,214)	(52,173)	(2,348)
Increase (decrease) in due to other governments	1	12,124	-	-	12,125	1,957
Increase (decrease) in deposits payable	-	9,112	-	-	9,112	-
Net cash provided from (used in) operating activities	<u>\$ 3,146,538</u>	<u>\$ 3,939,690</u>	<u>\$ 8,832,342</u>	<u>\$ 183,016</u>	<u>\$ 16,101,586</u>	<u>\$ (97,604)</u>
SUPPLEMENTAL CASH FLOW INFORMATION						
NON-CASH TRANSACTIONS						
Capitalized interest	\$ -	\$ -	\$ -	\$ 13,894	\$ 13,894	\$ -
Capital asset additions financed by retainage payable	-	114,055	235,607	76,181	425,843	-
Undrawn public utility revenue bond proceeds	-	-	16,026,162	-	16,026,162	-

CITY OF LYNCHBURG, VIRGINIA**EXHIBIT 11****Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

Assets

Cash and cash equivalents	\$ 198,279
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Total assets	<u>198,279</u>
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Liabilities

Accounts payable	4,090
Amounts held for others	<u>194,189</u>

Total liabilities	<u>198,279</u>
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Net Assets	<u><u>\$ -</u></u>
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CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lynchburg, Virginia (the "City") was founded by John Lynch in 1757, chartered as a town in 1786 and incorporated as a town on January 10, 1805 and received independent City status in 1852. The City operates on a Council-Manager form of Government and provides all municipal services to its residents. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the data of the City's three component units. They are reported in separate columns to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by City Council.

Lynchburg City Schools: The Lynchburg City Schools (the "Schools") operates one pre-school, eleven elementary, three middle schools and two high schools in the City. The Schools are fiscally dependent on the City because the Schools' operational and capital budgets are funded approximately 50% by the City. In addition, the Schools are prohibited from issuing bonded debt without approval of City Council.

Business Development Centre, Inc.: The Business Development Centre, Inc. (the "Centre") provides business advisory services to small businesses in the Central Virginia area, operates a business incubator, and provides financing for qualifying businesses under certain federal programs. The City provides financial support to the Centre by leasing to the Centre, at a nominal amount, the facility which houses the Centre's operations. The City has agreed to advance operating funds to the Centre to cover working capital needs.

Greater Lynchburg Transit Company: The Greater Lynchburg Transit Company ("GLTC") provides mass transit services to the area. The City provides financial support to GLTC through the assumption of the obligation to finance GLTC's deficits.

Complete financial statements of the individual component units can be obtained directly from their administrative offices at the addresses listed below. The Lynchburg City Schools financial statements are not separately prepared, but are included in this financial report.

Business Development Centre, Inc.
147 Mill Ridge Road
Lynchburg, Virginia 24502

Greater Lynchburg Transit Company
Post Office Box 797
Lynchburg, Virginia 24505-0797

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Blue Ridge Regional Jail Authority: The Blue Ridge Regional Jail Authority (the "Authority") was created by certain Member Jurisdictions for the purpose of developing and operating a regional jail system to be established by acquiring, renovating and expanding certain existing jail facilities and constructing additional jail facilities. The Member Jurisdictions are the Cities of Lynchburg and Bedford and the Counties of Halifax, Bedford, and Campbell. The Authority began operating the existing jail facilities in the Member Jurisdiction on July 1, 1998.

The City sold its existing jail facilities to the Authority during FY 1997. A new central jail facility was constructed in Lynchburg and opened in FY 2000. It is owned and operated by the Authority. Each Member Jurisdiction pays a per diem charge for each day that one of its prisoners is at any Regional Jail Facility. In accordance with the Service Agreement, the Authority has divided the per diem charge into an operating component and a debt service component. The per diem charge is based on an agreed upon number of prisoner days, and is subject to an adjustment at the end of each fiscal year. During 2006, the City paid \$3,357,504 to the Authority.

Central Virginia Community Services Board: The City, in conjunction with the counties of Amherst, Appomattox, Bedford and Campbell and the City of Bedford participate in the Central Virginia Community Services Board ("CVCSB"), which is composed of two members from each of the participating localities. The City appropriated \$447,883 for an operating contribution to the CVCSB for 2006.

Joint Venture: The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Bedford for the operation of a regional radio communication system. The Central Virginia Regional Radio Communications Board is responsible for overseeing the management, operation and administration of the system. The project was financed originally by lease revenue bonds of the Industrial Development Authority of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest at 5.72%), and the leasing of the project to the participating jurisdictions. On August 1, 2004, this lease revenue bond was refinanced with a \$5,075,000 lease revenue note at 3.30% and a July 2011 maturity. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 33.10%. Future minimum lease payments in the amount of \$1,346,628 are included in the governmental activities noncurrent liabilities. An asset in the amount of \$1,594,829 is shown in the governmental activities capital assets, net of accumulated depreciation. Separate financial statements of this joint venture are not available.

Related Organizations: The following entities are excluded from the accompanying financial statements:

Lynchburg Redevelopment and Housing Authority: Under the *Code of Virginia* ("Code"), the Commonwealth of Virginia ("Commonwealth") created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. In April 1956, City Council activated the Lynchburg Redevelopment and Housing Authority (the "LRHA") which owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the LRHA are appointed by City Council; however, City Council is not financially accountable for LRHA. During 2006, the City provided \$152,139 to the LRHA from the Community Development Block Grant Fund.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Industrial Development Authority of the City of Lynchburg: Under the *Code*, City Council passed an ordinance on March 14, 1967, which created the Industrial Development Authority of the City of Lynchburg (the "IDA"). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

Other Boards and Commissions: City Council appoints certain members of various boards and commissions' governing bodies as provided under state and local laws and ordinances. The boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

B. Basis of Presentation

The accompanying financial statements present the government and its component units legally separate entities for which the City is financially accountable. As permitted in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its enterprise funds Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Government-wide Statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the City Federal/State Aid Projects, Community Development Block Grant, Lynchburg Business Development Centre, Museum System, Law Library, Forfeited Assets, E-911, Comprehensive Services Act, Lynchburg Expressway Appearance, Home Investment Trust, Detention Home, Technology Services, and Baseball Stadium.

Capital Projects Funds: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. This fund consists of the City Capital Projects Fund, Highway Projects Grant Fund, and School Capital Projects Fund.

Proprietary Fund Types:

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. These funds consist of the Water, Sewer, Solid Waste Management, and Airport Funds.

The total enterprise funds columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements, with the exception of the impact of allocating internal service fund activity.

Internal Service Funds: Internal Service Funds are used to account for the financing of goods and services supplied to other funds of the City on a cost-reimbursement basis. A Fleet Management Fund has been established to account for the operation and maintenance of City vehicles.

Fiduciary Fund Types:

Agency Funds: Agency Funds are used to account for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds consist of the Special Welfare and Central Virginia Regional Radio Board Funds.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both “measurable” and “available.” Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period for most revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Expenditures in governmental funds are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exceptions to this general rule are principal and interest on general long-term debt, which are recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund and of the City’s internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds are unlike all other types of funds, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency fund utilizes the accrual basis of accounting to recognize receivables and payables.

The City reports one major governmental fund, the *General Fund*.

The City reports the following major proprietary funds: The *Water Fund*, *Sewer Fund*, *Airport Fund* and *Solid Waste Management Fund*.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

All governmental and proprietary funds have legally adopted budgets. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) On or before April 15, the City Manager submits to City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budgets includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution.
- 4) The City Manager is authorized to transfer budget amounts between departments in accordance with the Adopted Budget Ordinance within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$21,502,504 during the fiscal year ended June 30 primarily for local match for various grants, human services programs, and additional operating expenditures. It also includes a carryforward of unexpended prior year appropriations for continuing programs. The Superintendent of the Schools is authorized to transfer budget amounts within departments; however, any revisions that alter total budget amounts of any department must be approved by the School Board.
- 5) Formal budgetary integration is employed as a management control device during the year for all funds.
- 6) Budgets for the General Fund and the Capital Projects Funds are prepared in accordance with management's and the City Attorney's interpretation of the City Charter, which is principally the modified accrual basis of accounting. Encumbrances are treated as a reservation of fund equity and reappropriated in the next fiscal year. Further, certain revenues, expenditures, and transfers related to internal service type functions are included for budget purposes. The budget for the Lynchburg City Schools (School Operating Special Revenue Fund) is prepared on modified accrual basis of accounting.

Project budgets are utilized in the Capital Projects Funds. All General Fund appropriations which are not encumbered lapse at year end. Appropriations for the Capital Projects Funds are continued until completion of applicable projects, even when projects extend for more than one fiscal year, or until repealed. New capital projects and additional appropriations for ongoing projects are included in the capital adopted budget commencing on July 1, concurrent with the operating budget process described above.

E. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and temporary cash investments of the General and Enterprise Funds include certain deposits, unexpended bond proceeds and amounts related to the Passenger Facility Charge Program at the Airport.

F. Investments

Investments are stated at fair value. Interest earned by certain funds of the Schools and City Capital Projects Fund are allocated to the General Fund. All other interest is allocated to the fund which owns the underlying investments.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

G. Receivables

The City calculates its allowance for uncollectible accounts using historical collection data, and specific account analysis. Receivables are presented net of allowance for doubtful accounts. The allowance is composed of the following:

General Fund, property taxes and other receivables	\$	1,326,085
General Fund, ambulance receivables	\$	563,870
Enterprise Funds	\$	252,437

H. Inventory

Inventory in the Water Fund is valued at cost using the first-in, first-out (FIFO) method. This inventory consists principally of spare parts held for consumption. The cost is recorded as an expense at the time individual inventory items are withdrawn for use.

I. Capital Assets

Governmental funds: Capital outlays are recorded as expenditures on the fund basis and as assets on the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. Infrastructure has been capitalized retroactively to 1980. The City depreciates capital assets using the straight-line method over their estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Land improvements	15-20
Buildings and improvements:	
New construction	30-40
Improvements	15-20
Infrastructure	30-50
Machinery and equipment	5-10

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their fair market value on the date donated. Schools' buildings and other facilities are capital assets for the City government and not for the component unit.

Works of art, historical treasures, and similar assets have not been capitalized because of the following factors. The works of art at the City are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. The collection is protected, kept unencumbered, cared for, and preserved. The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Proprietary Funds: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost based on independent consultant studies, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method.

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of enterprise funds' capital assets. During 2006, the enterprise funds incurred interest costs of \$3,317,975 of which \$13,894 was capitalized.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

J. Deferred Revenue

Deferred revenue consists primarily of property taxes and other receivables not collected within 45 days of year-end.

K. Compensated Absences

City employees accumulate vacation time depending upon their length of service up to a total of 288 hours. All outstanding vacation time is payable upon termination of employment. The current portions are recorded as liabilities in the governmental fund financial statements when they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability.

L. Arbitrage Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the City temporarily invests the proceeds of tax exempt debt in securities with higher yields. The City treats the estimated rebate payable as a reduction of available financial resources in the fund that earned the arbitrage profit. Accordingly, interest earnings are reduced by the amount of the increase in the estimated rebate payable and a liability is reported in the appropriate fund.

M. Interfund Transactions

The City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transfers and other charges between the enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Subsidies between funds are recorded as transfers.

N. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses. Actual results could differ.

O. Net Assets/Fund Equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the fund financial statements, City funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 2. Cash and Investments

Deposits:

All cash of the City and School Board is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. Seq.* of the *Code*, or covered by federal depository insurance.

Investments:

Investment Policy:

In accordance with the *Code* and other applicable law, including regulations, the City's Investment Policy (Policy) permits investments in Treasury Securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase.

Credit Risk:

As required by state statute or by the City, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, and Fitch Investor's Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody's and Stand and Poor's. Banker's acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated A or better by Moody's and Standard & Poor's.

As of June 30, 28% of the portfolio was invested in "AAA" rated obligations, 3% was invested in "AA" rated securities, 9% was invested in "A" rated short-term notes and 60% was invested in an "AAAm" rated LGIP fund. Of the portion of the portfolio rated "AAA", 11% was invested in obligations guaranteed by the U.S. Government. All credit ratings presented in this paragraph are Standard & Poor's ratings.

Concentration of Credit Risk:

Although the intent of the Policy is for the City to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the City may invest in any one issuer.

As of June 30, investment types that exceed 5% of the portfolio are as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Repurchase Agreements	8%
Money Market Funds-LGIP	60%
U. S. Treasury Bills	11%
Federal National Mortgage Association	6%

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 2. Cash and Investments (Continued)

Concentration of Credit Risk: (Continued)

Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Agency securities must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase and banker's acceptances must mature within 180 days of the date of purchase.

As of June 30, 2006, the carrying values and weighted average maturity of the City's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity*
Money market funds – Virginia LGIP	\$ 47,573,390	-
Repurchase agreements	6,467,000	1
Commercial paper	4,153,812	81
U.S. Treasury bills	8,448,820	49
Federal Home Loan Mortgage Corporation	3,531,620	133
Federal National Mortgage Association	4,937,700	89
Federal Farm Credit Banks	2,064,673	327
Federal Home Loan Bank	2,438,535	152
Total investments	<u>\$ 79,615,550</u>	
Portfolio weighted average maturity		34

* Weighted average maturity in days.

Custodial Credit Risk

The Policy requires that all investment securities shall be held in the safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all investments are held in a bank's trust department in the City's name.

The above items are reflected in the statements as follows:

	Primary Government	School Board Component Unit
Deposits and investments:		
Cash on hand	\$ 22,530	\$ 500
Deposits	32,915,105	1,002,339
Investments	65,022,324	14,593,226
	<u>\$ 97,959,959</u>	<u>\$ 15,596,065</u>
Statement of net assets:		
Cash and cash equivalents	\$ 50,592,304	\$ 15,325,087
Investments	18,732,755	-
Restricted cash and cash equivalents	28,436,621	172,424
Fiduciary fund cash and cash equivalents	198,279	98,554
	<u>\$ 97,959,959</u>	<u>\$ 15,596,065</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 3. Property Taxes

Real Estate taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. Supplemental real estate taxes are levied in June to reflect construction in progress during the fiscal year with a tax due date in August. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15.

For FY 2006, personal property taxes were due November 15, 2005 for the calendar year 2005 levy. Due to the implementation of a semi-annual billing process, the first installment of personal property taxes for the calendar year 2006 levy was due June 15, 2006 with the second installment due December 5, 2006. Future installments will be due June 5 and December 5. Additional billings for personal property acquisitions will be due February 5 and August 5.

A penalty of 10% for late payment is assessed on the day after the due date and interest at the rate of 10% is assessed on unpaid balances beginning with the first day of the month following the due date. The City bills and collects its own property taxes.

Note 4. Interfund Receivables, Payables, and Transfers

Interfund balances at June 30 were as follows:

	<u>Receivables</u>	<u>Payables</u>
Major Funds:		
General	\$ 693,349	\$ -
Nonmajor Funds – Special Revenue:		
City Federal/State Aid Projects	-	54,382
Community Development Block Grant	-	253,491
Lynchburg Business Development Centre	-	20,000
E-911	-	20,600
Comprehensive Services Act	-	1,556
Home Investment Trust	-	32,945
Detention Home	-	56,600
Nonmajor Funds-Capital Projects:		
City Capital Project	-	25,980
Major Proprietary Funds:		
Water	-	82,393
Sewer	-	52,009
Airport	-	21,953
Solid Waste	-	53,410
Internal Service	-	18,030
	<u>\$ 693,349</u>	<u>\$ 693,349</u>

Interfund receivables primarily represent advances to special revenue funds to be repaid with future grant revenues.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 4. Interfund Receivables, Payables and Transfers (Continued)

Interfund transfers were as follows:

	To	From
Major Funds:		
General	\$ 504,783	\$ 6,178,901
Nonmajor governmental funds:		
City Federal/State Aid Projects	362,528	74,530
Community Development Block Grant	2,337	-
Law Library	-	26,150
E-911	-	105,000
Technology Services	739,058	-
Baseball Stadium	156,971	110,724
Nonmajor Funds – Capital Projects:		
City Capital Project	3,204,313	-
Highway Projects Grant	-	399,316
Major proprietary funds:		
Water	-	182,846
Sewer	-	110,389
Airport	398,485	-
Solid Waste	732,529	532,855
Internal Service	1,619,707	-
	<u>\$ 7,720,711</u>	<u>\$ 7,720,711</u>

Transfers were primarily to support capital projects and operations of funds.

Note 5. Due From/To Primary Government and Component Units

Due from/to balances between the City and its component units at June 30, were as follows:

	Due From	Due To
Primary Government:		
General	\$ 6,573,417	\$ 184,254
Special Revenue:		
Lynchburg Business Development Centre	145,000	-
	<u>\$ 6,718,417</u>	<u>\$ 184,254</u>
Component Units:		
Lynchburg City Schools	\$ -	\$ 6,573,417
Business Development Centre, Inc.	-	145,000
Greater Lynchburg Transit Company	184,254	-
	<u>\$ 184,254</u>	<u>\$ 6,718,417</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 6. Due From Other Governments

Amounts due from other governments at June 30, consisted of the following:

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Schools	Others
Surrounding counties – Detention Home	\$ 198,302	\$ -	\$ -	\$ -
Various federal and state grants	2,630,149	281,910	2,726,279	202,696
Virginia Revolving Loan	-	16,026,162	-	-
Members of Regional Sewage Treatment Plant	-	5,474,090	-	-
	<u>\$ 2,828,451</u>	<u>\$ 21,782,162</u>	<u>\$ 2,726,279</u>	<u>\$ 202,696</u>

Due from members of the Regional Sewage Treatment Plant

Amounts due from members of the Regional Sewage Treatment Plant Agreement (Agreement) of June 6, 1974 represent amounts due from Amherst County, the Bedford County Public Service Authority and the Campbell County Utilities and Service Authority for their proportionate share (20%) of improvements to Joint-Use Facilities. These Joint-Use Facilities are defined as the City's Regional Waste Water Treatment Plant and its immediately related treatment facilities used jointly by the City and one or more of the Counties in connection with the transmission or treatment of wastes made the subject of the Agreement. The cost of improvements are billed to each community and recorded as contributed capital when related projects are completed. Pursuant to Section VI (b) of the Agreement, each County shall have the option of paying its proportionate share of the cost of the project either in cash or on a deferred payment schedule coinciding with the period over which the City's bonds are amortized plus interest at the rate equivalent to the net interest cost to the City. The Counties have elected to pay their share of improvements coinciding with the City's. Future payments to be received are as follows:

Amount receivable within 1 year	\$ 385,623
Amount receivable 1 to 5 years	1,942,373
Amount receivable beyond 5 years	<u>3,146,094</u>
	<u>\$ 5,474,090</u>

Note 7. Receivables

Receivables as of June 30, for the government's individual major funds and nonmajor funds in the aggregate, net of allowances for uncollectible accounts are as follows:

	Property Taxes	Accounts	Other	Total
Major funds:				
General	\$ 7,136,317	\$ 6,657,945	\$ 145,454	\$ 13,939,716
Water	-	1,164,817	6,349	1,171,166
Sewer	-	1,793,270	91,179	1,884,449
Airport	-	30,261	41,525	71,786
Solid Waste	-	881,216	-	881,216
Internal Service	-	-	30,058	30,058
Nonmajor Governmental Funds	-	-	1,099,615	1,099,615
	<u>\$ 7,136,317</u>	<u>\$ 10,527,509</u>	<u>\$ 1,414,180</u>	<u>\$ 19,078,006</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 8. Capital Assets

Primary Government:

A summary of the changes in capital assets for governmental activities are as follows:

Governmental Activities	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 8,624,862	\$ 271,625	\$ 111,280	\$ 8,785,207
Construction in progress	13,163,697	12,709,982	13,498,446	12,375,203
Total capital assets, not being depreciated	21,788,559	12,981,577	13,609,726	21,160,410
Capital assets, being depreciated:				
Land improvements	7,934,697	2,253,961	446,169	9,742,489
Buildings and improvements	170,357,047	7,869,862	883,654	177,343,255
Infrastructure	186,292,820	3,228,106	55,600	189,465,326
Machinery and equipment	29,628,894	3,960,044	2,766,047	30,822,891
Total capital assets, being depreciated	394,213,458	17,311,973	4,151,470	407,373,961
Less – accumulated depreciation for:				
Land improvements	1,981,739	406,573	-	2,388,312
Buildings and improvements	74,539,515	4,642,258	207,668	78,974,105
Infrastructure	75,140,621	5,453,750	11,119	80,583,252
Machinery and equipment	15,190,186	3,110,820	2,538,699	15,762,307
Total accumulated depreciation	166,852,061	13,613,401	2,757,486	177,707,976
Total capital assets, being depreciated	227,361,397	3,698,572	1,393,984	229,665,985
Governmental activities capital assets, net	\$ 249,149,956	\$ 16,680,149	\$ 15,003,710	\$ 250,826,395

Included above is property with a cost and net book value of \$9,590,304 and \$7,571,496, respectively, at June 30 financed by capital leases.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 499,997
Education	2,560,957
Judicial	178,333
Health and human services	488,748
Public Safety	1,614,316
Public Works	6,927,552
Community development	18,710
Cultural and recreational	625,174
	<hr/>
Total governmental activities	12,913,787
	<hr/>
Business-type activities:	
Water	79,143
Sewer	133,412
Airport	19,560
Solid Waste	467,499
	<hr/>
Total business type activities	699,614
	<hr/>
Total depreciation	\$ 13,613,401

The Fleet Internal Services Fund, whose assets are reported as a part of the City's governmental activities assets, purchases vehicles that are used by the City's Enterprise Funds. Depreciation related to those vehicles is allocated to the Enterprise Funds. In prior years, the City Capital Projects Fund, on occasion, would construct assets that were used primarily by the Enterprise Funds. Depreciation on these assets is also allocated to the Enterprise Funds. The \$699,614 of business-type activities depreciation reflected above is the allocation of this depreciation and is not reflected on the business-type activities asset information reported below.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 8. Capital Assets (Continued)

Primary Government: (Continued)

A summary of the changes in the City's capital assets for business-type activities is as follows:

Business-type activities	Beginning Balances	Transfers and Additions	Transfers and Retirements	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 5,632,577	\$ 24,012	\$ 9,234	\$ 5,647,355
Construction in progress	21,271,486	14,165,172	14,554,776	20,881,882
Total capital assets, not being depreciated	26,904,063	14,189,184	14,564,010	26,529,237
Capital assets, being depreciated:				
Land improvements	15,513,321	3,333	2,765	15,513,889
Buildings and improvements	35,617,347	195,053	-	35,812,400
Infrastructure	232,875,667	14,392,042	96,965	247,170,744
Machinery and equipment	14,378,702	45,664	3,144,562	11,279,804
Capitalized interest	5,576,608	13,894	-	5,590,502
Total capital assets, being depreciated	303,961,645	14,649,986	3,244,292	315,367,339
Less – accumulated depreciation for:				
Land improvements	11,432,545	504,719	2,765	11,934,499
Buildings and improvements	13,352,424	1,104,392	-	14,456,816
Infrastructure	62,108,216	5,589,940	93,024	67,605,132
Machinery and equipment	10,185,641	777,342	3,100,798	7,862,185
Capitalized interest	962,873	111,532	-	1,074,405
Total accumulated depreciation	98,041,699	8,087,925	3,196,587	102,933,037
Total capital assets, being depreciated, net	205,919,946	6,562,061	47,705	212,434,302
Business-type activities capital assets, net	\$ 232,824,009	\$ 20,751,245	\$ 14,611,715	\$ 238,963,539

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 8. Capital Assets (Continued)

Component Units:

A summary of the changes in capital assets of the Schools is as follows:

<u>Lynchburg City Schools</u>	<u>Beginning Balances</u>	<u>Transfers and Additions</u>	<u>Transfers and Retirements</u>	<u>Ending Balances</u>
Capital assets, being depreciated:				
Equipment	\$ 5,777,256	\$ 503,035	\$ 194,504	\$ 6,085,787
Equipment – Cafeteria	503,944	6,959	-	510,903
Total capital assets, being depreciated	6,281,200	509,994	194,504	6,596,690
Less – accumulated depreciation for:				
Equipment	3,980,898	501,631	194,504	4,288,025
Equipment – Cafeteria	266,386	50,858	-	317,244
Total accumulated depreciation	4,247,284	552,489	194,504	4,605,269
Lynchburg City Schools capital assets, net	\$ 2,033,916	\$ (42,495)	\$ -	\$ 1,991,421

Included above is property with a cost and net book value of \$1,412,559 and \$1,106,537, respectively, at June 30 financed by capital leases.

Details of capital assets of other Component Units are as follows:

Land, buildings, and improvements	\$ 2,129,704
Machinery and equipment	8,441,257
	10,570,961
Less accumulated depreciation	7,374,232
	\$ 3,196,729

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 9. Long-Term Liabilities

General Obligation Debt:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Primary Government			
					Public Improvements	School Facilities	Proprietary Funds	Total All Funds
Bond Anticipation Note								
Public Improvement Water & Sewer BAN	3.88 %	05/09/2006	2009	\$ 16,500,000	\$ -	\$ -	\$ 16,500,000	\$ 16,500,000
State Literary Fund loans payable								
Virginia Department of Treasury	4.00	07/01/1990	2011	372,412	-	87,412	-	87,412
Serial Bonds								-
VPSA General Obligation Bond	4.90 - 6.35	11/12/1992	2013	458,292	-	181,762	-	181,762
Virginia Resources Authority Loan	4.50	03/24/1994	2027	3,976,369	-	-	2,594,649	2,594,649
VPSA General Obligation Bond	6.10 - 6.60	11/22/1994	2015	2,100,362	-	1,064,894	-	1,064,894
Taxable Refunding Bonds	5.40 - 6.40	01/01/1996	2007	7,150,000	-	385,000	-	385,000
Public Improvement Bonds	4.30 - 4.50	02/01/1996	2007	5,000,000	239,200	-	10,800	250,000
Public Improvement Bonds	4.60 - 4.80	02/15/1997	2007	16,000,000	278,000	356,000	186,000	820,000
Public Improvement Bonds	4.60 - 5.40	04/01/1998	2015	33,855,000	3,976,509	3,498,586	5,699,905	13,175,000
Public Improvement Bonds	4.60 - 5.40	06/01/1999	2019	17,820,000	4,972,119	1,808,931	4,343,950	11,125,000
Public Improvement Bonds	5.30 - 5.60	07/01/2000	2010	14,405,000	882,168	381,432	846,400	2,110,000
Public Improvement Bonds	3.50 - 4.875	08/01/2001	2032	14,620,000	-	1,647,617	11,147,383	12,795,000
VPSA General Obligation Bond	3.10 - 5.10	11/15/2001	2022	3,473,329	-	2,835,528	-	2,835,528
VPSA General Obligation Bond	2.35 - 4.85	11/07/2002	2023	6,513,732	-	5,607,720	-	5,607,720
Public Improvement Refunding Bonds	2.00 - 5.00	02/01/2003	2014	23,670,000	4,197,943	497,335	8,399,722	13,095,000
Public Improvement Bonds	2.50 - 4.70	02/01/2003	2033	16,745,000	7,860,000	2,110,000	4,785,000	14,755,000
Public Improvement Bonds	3.00 - 5.00	06/01/2004	2034	28,160,000	9,915,000	9,240,000	7,125,000	26,280,000
Public Improvement Refunding Bonds	3.00 - 5.25	03/16/2005	2030	33,105,000	12,877,845	8,474,880	11,752,275	33,105,000
Taxable Refunding Bonds	3.90 - 4.86	03/16/2005	2014	3,810,000	-	3,810,000	-	3,810,000
VPSA General Obligation Bond	4.60 - 5.10	11/10/2005	2026	6,411,957	-	6,411,957	-	6,411,957
Public Improvement Bonds	4.00 - 5.00	05/09/2006	2026	23,840,000	17,198,000	6,001,000	641,000	23,840,000
					<u>\$ 62,396,784</u>	<u>\$54,400,054</u>	<u>\$ 74,032,084</u>	<u>\$ 190,828,922</u>

Bonds issued between 1992 and 2006 are callable subject to a maximum premium of 2%.

Authorized and unissued general obligation public improvement bonds and public utility revenue bonds amounted to \$65,898,043 and \$2,411,847 respectively, at June 30.

The Commonwealth imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings that may be issued by the City. As of June 30, the City's aggregate general obligation indebtedness was \$181,683,000 less than the state limit. In August 1999, City Council adopted a Debt Management Policy that limits tax-supported debt to five percent (5%) of its assessed valuation of real estate subject to tuition. There are no overlapping tax jurisdictions.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 9. Long-Term Liabilities (Continued)

Revenue Debt:

Details of the revenue debt of the Enterprise Funds at June 30 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Enterprise Fund
Virginia Resources Authority:					
Public Utility Revenue Bonds	0.00%	03/28/1995	2027	\$ 6,571,207	\$ 3,659,786
Public Utility Revenue Bonds	0.00	08/10/1995	2029	10,000,000	6,313,492
Public Utility Revenue Bonds	0.00	06/27/1996	2029	8,000,000	4,887,262
Public Utility Revenue Bonds	3.00	07/17/1997	2020	14,108,460	10,808,524
Public Utility Revenue Bonds	0.00	07/17/1997	2030	7,591,540	5,338,036
Public Utility Revenue Bonds	0.00	08/01/1998	2031	6,203,000	4,647,284
Public Utility Revenue Bonds	3.00	06/02/1999	2020	2,476,763	1,893,816
Public Utility Revenue Bonds	0.00	09/02/1999	2021	5,300,000	4,184,211
Public Utility Revenue Bonds	0.00	03/15/2001	2032	735,000	587,171
Public Utility Revenue Bonds	3.50	06/08/2001	2021	2,835,000	2,415,623
Public Utility Revenue Bonds	0.00	11/06/2001	2034	1,413,613	1,238,109
Public Utility Revenue Bonds	0.00	09/15/2003	2036	2,350,165	2,269,371
Public Utility Revenue Bonds	0.00	05/20/2004	2038	6,000,000	6,000,000
Public Utility Revenue Bonds	0.00	05/17/2005	2038	6,700,000	6,700,000
Public Utility Revenue Bonds	0.00	06/28/2006	2039	9,600,000	9,600,000
					<u>\$ 70,542,685</u>

The revenue bonds have been issued in accordance with the terms of an indenture agreement with the Virginia Resources Authority (VRA) of the Commonwealth of Virginia. The indenture agreement requires the City to pledge its Sewer Fund Revenues as collateral for the revenue bonds and to maintain debt coverage in the Sewer equal at least 1.15 of all debt service payments which exclude any refunded principal payments. As shown in the supplementary statistical table 21, the debt coverage ratio for the year ended June 30, 2006 was 1.53.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 9. Long-Term Liabilities (Continued)

Primary Government:

The following is a summary of changes in long-term liabilities for the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Governmental Activities					
Bond anticipation notes	\$ 7,500,000	\$ -	\$ 7,500,000	\$ -	\$ -
General obligation bonds	93,990,307	29,610,957	6,891,838	116,709,426	8,116,442
Notes payable*	3,200,000	-	-	3,200,000	-
State literary fund loans	126,937	-	39,525	87,412	19,000
Adjust for deferred amounts:					
Issuance premiums	1,665,073	767,130	130,529	2,301,674	-
On refunding	(1,952,538)	-	(177,599)	(1,774,939)	-
Total bonds and notes	104,529,779	30,378,087	14,384,293	120,523,573	8,135,442
Workers' compensation	510,084	1,250,329	836,176	924,237	149,274
Compensated absences	3,702,106	2,485,266	2,735,547	3,451,825	414,218
Capitalized lease obligations	7,747,458	-	460,206	7,287,252	477,493
	<u>\$ 116,489,427</u>	<u>\$ 34,113,682</u>	<u>\$ 18,416,222</u>	<u>\$ 132,186,887</u>	<u>\$ 9,176,427</u>
Business-Type Activities					
Bond anticipation notes	\$ -	\$ 16,500,000	\$ -	\$ 16,500,000	\$ -
General obligation bonds	61,935,092	641,000	5,044,008	57,532,084	5,237,154
Public utility revenue bonds	63,525,957	9,600,000	2,583,272	70,542,685	2,557,922
Adjust for deferred amounts:					
Issuance discounts	(263,872)	-	(26,687)	(237,185)	-
Issuance premiums	1,038,927	34,134	77,499	995,562	-
On refunding	(1,401,426)	-	(155,991)	(1,245,435)	-
Total bonds and notes payable	124,834,678	26,775,134	7,522,101	144,087,711	7,795,076
Workers' compensation	37,226	100,315	53,591	83,950	10,670
Compensated absences	389,738	288,133	295,552	382,319	45,878
Landfill closure – open landfill	2,478,594	159,367	-	2,637,961	-
Landfill closure – closed landfill	323,947	-	170,047	153,900	17,100
	<u>\$ 128,064,183</u>	<u>\$ 27,322,949</u>	<u>\$ 8,041,291</u>	<u>\$ 147,345,841</u>	<u>\$ 7,868,724</u>

*A note receivable was obtained concurrent with the issuance of this note payable. Neither instrument provided or consumed current financial resources and therefore, are not reflected in the fund statements. The note receivable is included in other assets on the government-wide statement of net assets.

Debt Service to Maturity:

Year Ending June 30	Governmental Activities						Business-Type Activities	
	Governmental Obligation		Literary Fund Loans		Capital Lease Obligations		Sewer Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 8,116,442	\$ 4,947,227	\$ 19,000	\$ 3,496	\$ 477,493	\$ 264,784	\$ 2,386,638	\$ 1,309,156
2008	7,782,531	4,908,843	19,000	2,736	494,700	247,576	2,312,792	1,313,175
2009	7,617,057	4,580,498	19,000	1,976	512,532	229,744	8,466,861	1,089,220
2010	7,714,680	4,268,753	19,000	1,216	531,009	211,267	1,961,560	885,197
2011	7,728,747	3,949,890	11,412	456	550,156	192,120	1,963,444	806,271
2012-2016	33,908,915	14,822,283	-	-	1,767,725	731,291	7,165,933	3,023,607
2017-2021	24,336,489	7,586,249	-	-	1,974,489	388,887	4,447,196	1,722,740
2022-2026	16,538,325	2,831,952	-	-	979,148	45,647	3,018,363	1,052,964
2027-2031	2,711,240	364,810	-	-	-	-	2,357,940	479,898
2032-2036	255,000	19,865	-	-	-	-	705,000	47,464
Total	<u>\$ 116,709,426</u>	<u>\$ 48,280,370</u>	<u>\$ 87,412</u>	<u>\$ 9,880</u>	<u>\$ 7,287,252</u>	<u>\$ 2,311,316</u>	<u>\$ 34,785,727</u>	<u>\$ 11,729,692</u>

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 9. Long-Term Liabilities (Continued)

Year Ending June 30	Business-Type Activities							
	General Obligation						Revenue Bonds	
	Water Fund		Solid Waste Management		Airport Fund		Sewer Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,679,841	\$ 1,206,385	\$ 864,267	\$ 222,728	\$ 306,408	\$ 101,453	\$ 2,557,922	\$ 458,757
2008	1,683,800	1,272,301	876,266	196,823	275,028	101,724	2,909,118	430,895
2009	11,498,384	1,004,412	584,944	154,373	243,019	89,591	3,097,845	402,168
2010	1,494,805	747,507	577,012	127,160	247,965	79,226	3,287,463	372,550
2011	1,458,045	683,356	588,271	99,958	248,756	68,536	3,318,001	342,012
2012-2016	5,482,238	2,604,798	1,464,386	238,400	840,609	217,442	17,082,297	1,217,768
2017-2021	3,320,872	1,489,378	213,585	35,371	345,333	85,287	16,248,325	324,911
2022-2026	1,978,500	918,718	37,700	13,226	217,083	31,775	10,107,377	-
2027-2031	1,957,700	443,285	36,540	4,196	-	-	6,711,238	-
2032-2036	725,000	57,737	-	-	-	-	4,099,765	-
2037-2041	-	-	-	-	-	-	1,123,334	-
Total	\$ 31,279,185	\$ 10,427,877	\$ 5,242,971	\$ 1,092,235	\$ 2,724,201	\$ 775,034	\$ 70,542,685	\$ 3,549,061

Notes Payable, Bank:

In July 2002, the City issued a general obligation note to SunTrust Bank and concurrently entered into a financing agreement with the Bank. The agreement provides for borrowings of up to \$15,000,000 to provide interim financing for qualifying capital improvements. Interest is equal to the tax-exempt note rate as defined in the agreement, plus 0.45%, up to a maximum of 4%, payable in arrears, on a monthly basis. All outstanding amounts are due at final maturity on August 30, 2007. There are no amounts outstanding at June 30, 2006.

Principal activity on the line of credit during FY 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
City Capital Projects Fund	\$ -	\$ 920,737	\$ (920,737)	\$ -
School Capital Projects Fund	-	3,177,000	(3,177,000)	-
Internal Service Fund	-	349,815	(349,815)	-
Total governmental activities	\$ -	\$ 4,447,552	\$ (4,447,552)	\$ -

Bond Anticipation Notes:

In May 2006, the City issued \$16,500,000 general obligation bond anticipation notes maturing on May 2009 for interim financing of water and sewer projects. The notes bear interest at the rate of 3.875% per annum.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 9. Long-Term Liabilities (Continued)

Component Unit – Lynchburg City Schools:

The following is a summary of changes in other long-term liabilities for the year ended June 30:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Compensated absences	\$ 690,635	\$ 203,274	\$ (262,512)	\$ 631,397	\$ -
Capital lease obligations	2,100,304	750,000	(782,024)	2,068,280	738,722
	<u>\$ 2,790,939</u>	<u>\$ 953,274</u>	<u>\$ (1,044,536)</u>	<u>\$ 2,699,677</u>	<u>\$ 738,722</u>

Following is a summary of debt service to maturity:

Year Ending June 30	Capital Lease Obligations	
	Principal	Interest
2007	\$ 738,722	\$ 53,786
2008	506,652	34,329
2009	467,395	19,544
2010	328,494	5,640
2011	27,017	115
Total	<u>\$ 2,068,280</u>	<u>\$ 113,414</u>

Note 10. Landfill Closure and Postclosure Care Costs

The City closed its Tyreeanna I landfill on October 8, 1993. In accordance with federal and state laws, the City placed a final cover on this site and is required to perform certain maintenance and monitoring functions for a minimum of ten years after closure, or until there are no remaining environmental issues. The City recently completed the ten-year period; however, due to the State's groundwater monitoring requirements, the City must continue to monitor the groundwater surrounding the facility. The method agreed upon by the State and the City is monitored natural attenuation. This requires on-going, semi-annual testing of groundwater from wells located above and below the landfill. The cumulative amount of estimated closure and postclosure care costs to date for this site is approximately \$3.76 million. As of June 30, 2006, total payments to date are approximately \$3.61 million, leaving estimated postclosure costs of approximately \$154,000. This amount is included in the landfill closure and postclosure liability in the Solid Waste Management Enterprise Fund.

The City's Tyreeanna II landfill began accepting waste on October 8, 1993. State and federal laws require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used. Estimated closure and postclosure care costs at June 30, 2006 of approximately \$2.64 million for the Tyreeanna II landfill site is based upon the total estimated closure and postclosure care costs of approximately \$5.04 million times 52 percent of the landfill used to date. The City will recognize the remaining estimated cost of closure and postclosure of approximately \$2.40 million as the remaining estimated capacity is filled. The City expects to close the landfill in 2014. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

The City uses the financial test method of demonstrating assurance for closure and postclosure care.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 11. Fund Equity Balances

Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use.

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Designations of fund balance by purpose are as follows:

	General	Special Revenue	Capital Projects
Self insurance and other insurance matters	\$ 2,161,132	\$ -	\$ -
Adopt a Bed	4,548	-	-
GLTC	39,968	-	-
Health insurance	195,000	-	-
Detention home	20,000	-	-
Return of fiscal year 2006 funds to schools	6,573,417	-	-
Completion of other approved specific projects and activities	500,000	289,862	526,302
Data processing	321,677	-	-
Court facilities	102,985	-	-
	<u>\$ 9,918,727</u>	<u>\$ 289,862</u>	<u>\$ 526,302</u>

Note 12. Employee Benefit Plans

Defined Benefits Pension Plan:

Plan Description: The City contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined pension plan administered by the Virginia Retirement System ("the System"). In addition, professional and non-professional employees of the Schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agency multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters). Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary ("AFS") for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits.

Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The system issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

(Continued)

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 12. Employee Benefit Plans (Continued)

Funding Policy: Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City and the Schools are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2005 were 19% of annual covered payroll. The School's contribution rates for the fiscal year ended 2006 were 11.62% for professional and 11.25% for non-professional employees. Both the City's and the School's contribution rates include the employee's share of 5% paid by the employer.

Annual Pension Cost: For 2006, the City's and Schools' annual pension costs of \$8,607,370 and \$5,543,969, respectively, were equal to their required and actual contributions. The required contributions were determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return; (b) projected salary increases ranging from 3.50% to 5.73% per year (depending on the employee's service and classification (general employee or uniformed officer), and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's and Schools' assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years.

Trend Information for the City of Lynchburg			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 8,607,370	100%	None
June 30, 2005	\$ 8,336,842	100%	None
June 30, 2004	\$ 6,627,182	100%	None

Trend Information for the Lynchburg City Schools			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 5,543,969	100%	None
June 30, 2005	\$ 4,636,607	100%	None
June 30, 2004	\$ 4,065,368	100%	None

Post Retirement Health Care Benefits:

In addition to providing pension benefits, the City provides certain health care benefits to retired full-time employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the City. At June 30, 2006, there were 498 employees eligible to receive these benefits. The cost of providing these benefits is recognized as paid and was approximately \$1,796,778 for 2006.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements

As of June 30, 2006

Note 13. Leases

Lessee:

Operating leases have original terms from one month to 60 months and in certain instances allow cancellation if funds are not appropriated for each year's payments. Future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Component Unit</u>
2007	\$ 335,391	\$ 215,908
2008	131,338	145,299
2009	72,137	145,299
2010	70,424	98,136
2011-2015	306,424	80,557
2016-2020	199,800	-
2021-2022	43,290	-
	<u>\$ 1,158,804</u>	<u>\$ 685,199</u>

For 2006, the City incurred rental expenditures of \$374,821 and \$30,464 in the General Fund and Special Revenue Funds, respectively, and rental expense of \$26,100 in the Enterprise Fund. For 2006, the Schools incurred rental expenditures of \$494,271.

Lessor:

The City is the lessor of certain airport facilities and other buildings under various operating leases for terms ranging from one to nine years. Future minimum lease payments to be received are as follows:

<u>Year ending June 30</u>	<u>Future Minimum Lease Payments</u>
2007	\$ 425,219
2008	346,587
2009	312,406
2010	176,300
2011	290,529
2012-2014	234,588
Total future minimum rentals	<u>\$ 1,785,629</u>

The amounts above do not include contingent rentals, which may be received under certain leases based on usage and sales. Rental income for the year ended June 30, approximated \$2,947,641 including \$2,243,907 in contingent rentals.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 14. Risk Management

The Risk Management Programs of the City are as follows:

Workers' Compensation: The City is self-insured for workers' compensation claims. All settled claims are paid through the General Fund and the Enterprise Funds. The liability for worker's compensation claims, including an estimate of incurred but not reported claims based on prior experience, to be paid in the next fiscal year and in future years is reflected in the statement of net assets. Total claims paid for the year ended June 30, 2006 amounted to approximately \$889,767.

General Liability and Other: The City is self-insured for general liability and automobile liability claims and purchases insurance coverage for risks related to property, boiler and machinery, surety bonds, and airport liability. City property is insured up to a limit of \$282,171,639 per occurrence. Other liability policies provide up to \$60,000,000 coverage in the aggregate. Police professional liability and public officials' liability claims with a \$500,000 deductible per claim are covered through a policy with the States Self Insurance Risk Group. Total premiums for purchased coverage for the year ended June 30, 2006 were approximately \$563,654. The City has designated a portion of its fund balance in the General Fund to fund future general liability claims. City management believes any incurred but not reported claims at June 30, 2006 would be insignificant.

Healthcare: The City's professionally administered self-insurance program provides healthcare coverage for employees and retirees of the City on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the City. Under the program, the City is obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$150,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, 2006, total claims expense of approximately \$5,600,000, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30, 2006 totaled approximately \$647,000. Estimated incurred but not reported claims at June 30, 2006 based on prior experience, totaled \$595,628 and have been funded by the City.

Changes in aggregate liabilities were as follows:

			Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Workers' Compensation	2006	\$	547,310	\$ 1,350,644	\$ 889,767	\$ 1,008,187
	2005	\$	407,299	\$ 452,610	\$ 312,599	\$ 547,310
General/Automotive Liability	2006	\$	15,868	\$ 177,772	\$ 173,890	\$ 19,750
	2005	\$	41,500	\$ 151,872	\$ 177,504	\$ 15,868
Healthcare	2006	\$	787,185	\$ 5,591,724	\$ 5,601,070	\$ 777,839
	2005	\$	750,000	\$ 6,385,078	\$ 6,347,893	\$ 787,185

General/Automobile Liability and Healthcare are considered current liabilities and are included in accounts payable and accrued liabilities in the Statement of Net Assets. Workers' Compensation breakdown between current and noncurrent is shown in Note 9.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 14. Risk Management (Continued)

The Risk Management Program of the Schools is as follows:

Healthcare: The Schools' professionally administered self-insurance program provides healthcare coverage for employees and retirees of the Schools on a cost-plus basis. Dependents of employees and retirees are also covered by the program provided they pay a premium to the Schools. Under the program, the Schools are obligated for claims payments and administrative costs. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$125,000 per covered individual per contract year. Total claims settlements did not exceed coverage for the last three years. For the year ended June 30, 2006, total claims expense of approximately \$4,454,685, which did not exceed the stop loss provisions, was incurred. Administrative fees and stop loss premiums for the year ended June 30, 2006 totaled approximately \$570,534. Estimated incurred but not reported claims at June 30, 2006 based on prior experience, totaled \$802,628 and have been funded by the Schools.

Changes in aggregate liabilities were as follows:

		Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Healthcare	2006	\$ 870,438	\$ 4,386,875	\$ 4,454,685	\$ 802,628
	2005	\$ 1,305,387	\$ 5,663,346	\$ 6,098,295	\$ 870,438

Note 15. Significant Transactions of the City and Discretely Presented Component Unit-School Board

Certain transactions between the City and School Board are explained here to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The School Board can neither levy taxes nor incur debt under Virginia law. Therefore, the City issues debt "on behalf" of the School Board. The debt obligation is recorded as a liability of the City's governmental activities. The proceeds from the debt issued "on behalf" of the School Board are recorded in the City's General Fund. Money in an amount equal to the proceeds received is then provided to the School Board to pay for capital expenditures. Any unspent money at year-end is reported as deposits and investments of the City in the School Capital Projects Fund.
2. The primary government's budgeting process provides funding in the City General Fund for School Board component unit debt service payments. GAAP requires that debt issued "on behalf" of the School Board and related debt service payments be reported by the primary government for financial reporting purposes. Therefore, debt service payments for Schools' bonded debt is reported as part of the primary government for financial reporting purposes in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Debt and related debt service for other than bonded debt is reported by the School Board.
3. If all economic resources associated with school activities were reported with the School Board, its total expenses/expenditures would be \$97,806,183, obtained as follows:

Expenses of School Board – Component Unit (Exhibit 2)	\$ 81,874,626
Principal and other debt service expenses included in primary government	<u>15,931,557</u>
Total expenses/expenditures for School activities	<u>\$ 97,806,183</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 16. Commitments and Contingencies

Combined Sewer Overflow:

In October 1989, the City completed its update of the combined sewer overflow ("CSO") segment of the 1978 study regarding system inflow/infiltration. The purpose of this study update was to provide a cost-effective plan for CSO control. After detailed evaluation of a wide variety of control alternatives, this study update/plan concluded that sewer separation is the most cost-effective control option. Updated estimates performed in 2000 indicate that the total remaining cost of CSO control, including related work such as sewer replacement/rehabilitation, waterline and street paving will total approximately \$296,000,000 in 2006 dollars. On August 19, 1994, the Virginia Department of Environmental Quality ("VDEQ") issued the City's sewage discharge permit and consent special order continuing the terms and conditions that will govern implementation of the City's CSO control plan. The permit requires the City to implement the CSO control plan and to undertake certain combined sewer management practices designed to minimize CSO discharge until the sewer system is completely separated. The order establishes a compliance schedule and project priority for implementation of the CSO control plan.

The compliance schedule does not contain fixed dates for implementing the CSO control plan, but rather provides for implementation based on criteria reflecting the limits of the City's financial capability. The Special Order requires the City to maintain a sewer operating fund debt coverage ratio within a range of 1.1 to 1.5 and reserve funds to equal no more than 25 percent of the subsequent years' budgeted operating expenditures. The City is currently implementing the CSO control plan in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit annual reports, including independent rate consultant reports, to VDEQ on the City's compliance with the order and its progress with CSO control plan implementation.

Construction and Related Commitments:

At June 30, the City had outstanding commitments under various construction contracts totaling approximately \$17,800,000.

Grant Programs:

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would not be material to the financial position of the City at June 30, 2006.

Renovation Projects:

In March 2003, the City signed a leasing agreement with a private developer for the renovation of E. C. Glass High School. This arrangement will allow for the use of certain tax credits. The remaining cost for the renovation is estimated to be approximately \$484,846. The permanent financing will be through a combination of a Virginia Public School Authority (VPSA) loan, general obligation bonds, and use of tax credits.

Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. Management is of the opinion that no amounts will be required to be rebated.

CITY OF LYNCHBURG, VIRGINIA

Notes to Financial Statements
As of June 30, 2006

Note 17. Subsequent Events

Capital Leases:

Subsequent to year-end, the School Board approved a lease/purchase of new school buses in the amount of approximately \$500,000.

Business Personal Property Tax Refund:

The City has been contacted by a local corporate taxpayer regarding its error in filing Business Personal Property Taxes. The taxpayer has requested a refund. Discussions are underway to determine the amount, which is estimated by management not to exceed \$185,000; and a multi-year repayment plan.

Construction:

Subsequent to year end, the Lynchburg Regional Airport commenced construction of a runway extension project of approximately \$12,000,000.

Note 18. New Accounting Standard

The Governmental Accounting Standards Board ("GASB") has issued its Statement No. 45 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. While management has not completed the process of evaluating the impact that will result from adoption of the standard, an initial estimate of expected cost has been performed by an actuary. The actuarial report states that the five year projected Net OPEB Obligation, at the end of the first year of implementation, is estimated to be approximately \$3,400,000 for the City and \$632,000 for the School Board. The estimate was based on current policies regarding retiree health coverage. The requirements of the Statement are effective in three phases based on the government's annual revenues, with the earliest effective date being for the year ending June 30, 2008. The requirements are effective for the City starting the year ending June 30, 2008.

Note 19. Restatement of Fund Balances and Net Assets

The following is a summary of the restatements of the Greater Lynchburg Transit Company component unit's net assets effective June 30, 2005:

Net assets at June 30, 2005 as previously reported	\$ 4,154,870
Restatement to:	
Show an allowance for uncollectible accounts receivable as of June 30, 2005	(10,000)
Show an allowance for obsolete parts inventory as of June 30, 2005	(27,000)
Write off repair expenses with a useful life of 1 year or less which had been capitalized prior to June 30, 2005	(57,100)
Reverse accrual of audit fees as of June 30, 2005	17,764
Record a liability for compensated absences as of June 30, 2005	(55,000)
Net assets at June 30, 2005, as restated	<u>\$ 4,023,534</u>

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information
Schedule of Funding Progress for Defined Benefit Pension Plan
As of June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
A. City of Lynchburg						
June 30, 2005	\$ 156,274,905	\$ 217,852,510	\$ 61,577,605	71.73%	\$ 44,136,215	139.52%
June 30, 2004	\$ 152,274,985	\$ 201,641,348	\$ 49,366,363	75.52%	\$ 42,326,002	116.63%
June 30, 2003	\$ 150,984,895	\$ 189,455,715	\$ 38,470,820	79.69%	\$ 41,022,649	93.78%
B. Lynchburg City Schools Non-professional Employees						
June 30, 2005	\$ 8,276,265	\$ 9,669,137	\$ 1,392,872	85.59%	\$ 3,236,234	43.04%
June 30, 2004	\$ 8,121,421	\$ 8,826,809	\$ 705,388	92.01%	\$ 3,044,001	23.17%
June 30, 2003	\$ 8,153,179	\$ 8,488,666	\$ 335,487	96.05%	\$ 3,029,056	11.08%

OTHER SUPPLEMENTAL INFORMATION

CITY OF LYNCHBURG, VIRGINIA

Nonmajor Governmental Funds
As of June 30, 2006

Nonmajor Governmental Funds:

Nonmajor governmental funds consist of special revenue and capital projects funds.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Funds in this category include:

- City Federal/State Aid Projects Fund – Accounts for various federal and state grants for such purposes as building projects, certain social service and community development programs, and public safety.
- Community Development Block Grant Fund – Accounts for revenues from the Department of Housing and Urban Development which are used for various development projects.
- Museum System Fund – Accounts for revenues received in support of the City's various museums.
- Lynchburg Business Development Centre Fund – Accounts for revenues received to support a local business incubator and for monies received from the Economic Development Administration for a revolving loan fund and certain other assistance.
- Detention Home Fund – Accounts for revenues received and expenditures made to support the operations of the City's Juvenile Detention Home.
- Law Library Fund – Accounts for fees received to support the operation of the Law Library.
- Forfeited Assets Fund – Accounts for revenues received from the sale of confiscated assets which are related to illegal drug sales and are used for law enforcement expenditures for drug related activities.
- Lynchburg Expressway Appearance Fund – Accounts for the revenues and expenditures associated with beautification of the Lynchburg Expressway Area.
- Comprehensive Services Act Fund – Accounts for revenues received and expenditures made to support the Comprehensive Services Act for At-Risk Youth and Families adopted by the Virginia General Assembly.
- E-911 Fund – Accounts for revenues for the operations and capital expenditures of the E-911 system. In addition, accounts for the City's share of ownership of the Central Virginia Regional Radio Communication Board.
- Home Investment Trust Fund – Accounts for revenues received from the Department of Housing and Urban Development for support of affordable housing needs in the City.
- Technology Services Fund – Accounts for revenues received to support the acquisition of computer equipment and maintaining network equipment, servers, and the A/S 400.
- Baseball Stadium Fund – Accounts for revenues received at the Lynchburg City Stadium.

Capital Projects Funds account for all resources used for the acquisition or construction of capital facilities except those financed by Enterprise Funds and federal and state grants. Funds in this category include:

- City Capital Projects Fund – Accounts for budgeted capital projects approved by City Council. The major source of this fund's resources is bond proceeds.
- Highway Projects Grant Fund – Accounts for federal and state grants received for highway projects.
- School Capital Projects Fund – Accounts for budgeted capital projects approved by the Lynchburg City Schools related to educational activities.

CITY OF LYNCHBURG, VIRGINIA

EXHIBIT A-1

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Total	Capital Projects Total	Total Nonmajor Governmental
Assets			
Cash and cash equivalents	\$ 2,449,612	\$ 4,612,557	\$ 7,062,169
Investments	988,500	1,971,470	2,959,970
Receivables, net of allowance			
Other	595,785	503,830	1,099,615
Due from component units	145,000	-	145,000
Due from other governments	1,514,551	-	1,514,551
Other Assets	213	-	213
Restricted assets:			
Cash and cash equivalents	-	11,214,519	11,214,519
Total assets	<u>\$ 5,693,661</u>	<u>\$ 18,302,376</u>	<u>\$ 23,996,037</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 708,357	\$ 1,647,843	\$ 2,356,200
Accrued liabilities	29,215	-	29,215
Retainage payable	-	360,614	360,614
Due to other governments	454	997	1,451
Due to other funds	439,574	25,980	465,554
Deferred revenue	74,013	-	74,013
Advance from other funds	-	124,691	124,691
Total liabilities	<u>1,251,613</u>	<u>2,160,125</u>	<u>3,411,738</u>
Fund balances			
Reserved for:			
Encumbrances	370,280	5,816,725	6,187,005
Advances	-	500,000	500,000
Unreserved, reported in special revenue			
Designated	289,862	-	289,862
Undesignated	3,781,906	-	3,781,906
Unreserved, reported in capital projects			
Designated	-	526,302	526,302
Undesignated	-	9,299,224	9,299,224
Total fund balances	<u>4,442,048</u>	<u>16,142,251</u>	<u>20,584,299</u>
Total liabilities and fund balances	<u>\$ 5,693,661</u>	<u>\$ 18,302,376</u>	<u>\$ 23,996,037</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Total	Capital Projects Total	Total Nonmajor Governmental
Revenues			
Taxes	\$ 974,621	\$ -	\$ 974,621
Intergovernmental	10,001,768	3,242,415	13,244,183
Revenue from use of money and property	961,089	999	962,088
Charges for services	2,986,236	-	2,986,236
Miscellaneous	675,449	222,005	897,454
Total revenues	15,599,163	3,465,419	19,064,582
Expenditures			
Current operating expenditures			
General government	405,140	-	405,140
Judicial	1,079,022	-	1,079,022
Public safety	5,062,707	-	5,062,707
Public works	35,878	3,108,725	3,144,603
Health and human services	4,703,851	-	4,703,851
Cultural and recreational	1,388,429	-	1,388,429
Community development	2,774,050	-	2,774,050
Education	-	188,692	188,692
Capital outlay			
Capital general government	-	11,886,863	11,886,863
Debt Service			
Principal retirements	543,883	-	543,883
Interest payments and other fiscal charges	280,859	-	280,859
Issuance costs	-	27,778	27,778
Total expenditures	16,273,819	15,212,058	31,485,877
Deficiency of revenues over expenditures	(674,656)	(11,746,639)	(12,421,295)
Other financing sources (uses)			
Issuance of bonds	-	21,080,955	21,080,955
Premium on debt proceeds	-	370,649	370,649
Transfers in	1,260,894	3,204,313	4,465,207
Transfers out	(316,404)	(399,316)	(715,720)
Total other financing sources (uses)	944,490	24,256,601	25,201,091
Net changes in fund balances	269,834	12,509,962	12,779,796
Fund balances - beginning	4,172,214	3,632,289	7,804,503
Fund balances - ending	\$ 4,442,048	\$ 16,142,251	\$ 20,584,299

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

	City Federal State Aid Projects	Community Development Block Grant	Lynchburg Business Development Centre	Museum System	Law Library	Forfeited Assets	E-911
Assets							
Cash and cash equivalents	\$ 525,402	\$ -	\$ 171	\$ 19,805	\$ 5,415	\$ 177,513	\$ 519,621
Investments	-	-	-	-	-	-	-
Receivables, net of allowance							
Other	29,577	284,708	-	-	-	-	76,115
Due from component unit	-	-	145,000	-	-	-	-
Due from other governments	769,206	53,970	-	-	-	2,311	-
Other Assets	-	-	213	-	-	-	-
Total assets	<u>\$ 1,324,185</u>	<u>\$ 338,678</u>	<u>\$ 145,384</u>	<u>\$ 19,805</u>	<u>\$ 5,415</u>	<u>\$ 179,824</u>	<u>\$ 595,736</u>
Liabilities and fund balance							
Liabilities							
Accounts payable	\$ 193,790	\$ 100,494	\$ -	\$ -	\$ 1,375	\$ 10,881	\$ 10,702
Accrued liabilities	14,922	-	-	-	-	-	-
Due to other governments	-	129	-	-	-	-	-
Due to other funds	54,382	253,491	20,000	-	-	-	20,600
Deferred revenue	24,830	49,183	-	-	-	-	-
Total liabilities	<u>287,924</u>	<u>403,297</u>	<u>20,000</u>	<u>-</u>	<u>1,375</u>	<u>10,881</u>	<u>31,302</u>
Fund balances							
Reserved for:							
Encumbrances	144,253	20,589	-	-	-	6,996	77,209
Unreserved:							
Designated	27,915	-	-	-	-	161,947	-
Undesignated	864,093	(85,208)	125,384	19,805	4,040	-	487,225
Total fund balances	<u>1,036,261</u>	<u>(64,619)</u>	<u>125,384</u>	<u>19,805</u>	<u>4,040</u>	<u>168,943</u>	<u>564,434</u>
Total liabilities and fund balances	<u>\$ 1,324,185</u>	<u>\$ 338,678</u>	<u>\$ 145,384</u>	<u>\$ 19,805</u>	<u>\$ 5,415</u>	<u>\$ 179,824</u>	<u>\$ 595,736</u>

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

	Compre- hensive Services Act	Lynchburg Expressway Appearance	Home Investment Trust	Detention Home	Technology Services	Baseball Stadium	Total Nonmajor Special Revenue
Assets							
Cash and cash equivalents	\$ 79,175	\$ 46,350	\$ -	\$ 18,287	\$ 910,822	\$ 147,051	\$ 2,449,612
Investments	-	-	-	-	988,500	-	988,500
Receivables, net of allowance							
Other	-	-	-	-	961	204,424	595,785
Due from component unit	-	-	-	-	-	-	145,000
Due from other governments	452,574	-	38,188	198,302	-	-	1,514,551
Other Assets	-	-	-	-	-	-	213
Total assets	<u>\$ 531,749</u>	<u>\$ 46,350</u>	<u>\$ 38,188</u>	<u>\$ 216,589</u>	<u>\$ 1,900,283</u>	<u>\$ 351,475</u>	<u>\$ 5,693,661</u>
Liabilities and fund balance							
Liabilities							
Accounts payable	\$ 360,384	\$ 2,718	\$ 10,358	\$ 12,216	\$ 163	\$ 5,276	\$ 708,357
Accrued liabilities	376	-	-	13,917	-	-	29,215
Due to other governments	75	-	-	250	-	-	454
Due to other funds	1,556	-	32,945	56,600	-	-	439,574
Deferred revenue	-	-	-	-	-	-	74,013
Total liabilities	<u>362,391</u>	<u>2,718</u>	<u>43,303</u>	<u>82,983</u>	<u>163</u>	<u>5,276</u>	<u>1,251,613</u>
Fund balances							
Reserved for:							
Encumbrances	-	4,129	5,040	15,076	96,988	-	370,280
Unreserved:							
Designated	-	-	-	100,000	-	-	289,862
Undesignated	169,358	39,503	(10,155)	18,530	1,803,132	346,199	3,781,906
Total fund balances	<u>169,358</u>	<u>43,632</u>	<u>(5,115)</u>	<u>133,606</u>	<u>1,900,120</u>	<u>346,199</u>	<u>4,442,048</u>
Total liabilities and fund balances	<u>\$ 531,749</u>	<u>\$ 46,350</u>	<u>\$ 38,188</u>	<u>\$ 216,589</u>	<u>\$ 1,900,283</u>	<u>\$ 351,475</u>	<u>\$ 5,693,661</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2006

	City/Federal State Aid Projects	Community Development Block Grant	Lynchburg Business Development Centre	Museum System	Law Library	Forfeited Assets	E-911
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 946,241
Intergovernmental	5,240,205	1,150,741	-	-	-	65,750	-
Revenue from use of money and property	3,514	-	28,351	-	-	5,396	24,156
Charges for services	113,421	101,656	-	8,926	57,526	-	-
Miscellaneous	72,887	13,030	-	468	-	-	-
Total revenues	5,430,027	1,265,427	28,351	9,394	57,526	71,146	970,397
Expenditures							
Current operating expenditures							
General government	-	-	-	-	-	-	-
Judicial	1,014,639	-	-	-	-	64,383	-
Public safety	1,647,742	-	-	-	-	103,948	893,718
Public works	-	-	-	-	-	-	-
Health and human services	1,819,297	-	-	-	-	-	-
Cultural and recreational	29,096	-	-	4,636	21,459	-	-
Community development	886,900	1,346,336	28,351	-	-	-	-
Debt service							
Principal retirements	-	-	-	-	-	-	331,668
Interest payments and other fiscal charges	-	-	-	-	-	-	81,905
Total expenditures	5,397,674	1,346,336	28,351	4,636	21,459	168,331	1,307,291
Excess (deficiency) of revenues over expenditures	32,353	(80,909)	-	4,758	36,067	(97,185)	(336,894)
Other financing sources (uses)							
Transfers in	362,528	2,337	-	-	-	-	-
Transfers out	(74,530)	-	-	-	(26,150)	-	(105,000)
Total other financing sources (uses)	287,998	2,337	-	-	(26,150)	-	(105,000)
Net changes in fund balances	320,351	(78,572)	-	4,758	9,917	(97,185)	(441,894)
Fund balances - beginning	715,910	13,953	125,384	15,047	(5,877)	266,128	1,006,328
Fund balances - ending	\$ 1,036,261	\$ (64,619)	\$ 125,384	\$ 19,805	\$ 4,040	\$ 168,943	\$ 564,434

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2006

	Compre- hensive Services Act	Lynchburg Expressway Appearance	Home Investment Trust	Detention Home	Technology Services	Baseball Stadium	Total Nonmajor Special Revenue
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,380	\$ 974,621
Intergovernmental	1,806,544	-	497,036	1,241,492	-	-	10,001,768
Revenue from use of money and property	-	-	-	-	50,596	849,076	961,089
Charges for services	1,097,626	-	-	1,334,168	-	272,913	2,986,236
Miscellaneous	140,803	38,350	-	116	108,978	300,817	675,449
Total revenues	<u>3,044,973</u>	<u>38,350</u>	<u>497,036</u>	<u>2,575,776</u>	<u>159,574</u>	<u>1,451,186</u>	<u>15,599,163</u>
Expenditures							
Current operating expenditures							
General government	-	-	-	2,434	402,706	-	405,140
Judicial	-	-	-	-	-	-	1,079,022
Public safety	-	-	-	2,417,299	-	-	5,062,707
Public works	-	35,878	-	-	-	-	35,878
Health and human services	2,884,554	-	-	-	-	-	4,703,851
Cultural and recreational	-	-	-	-	-	1,333,238	1,388,429
Community development	-	-	512,463	-	-	-	2,774,050
Debt service			-				
Principal retirements	-	-	-	152,105	-	60,110	543,883
Interest payments and other fiscal charges	-	-	-	72,943	-	126,011	280,859
Total expenditures	<u>2,884,554</u>	<u>35,878</u>	<u>512,463</u>	<u>2,644,781</u>	<u>402,706</u>	<u>1,519,359</u>	<u>16,273,819</u>
Excess (deficiency) of revenues over expenditures	<u>160,419</u>	<u>2,472</u>	<u>(15,427)</u>	<u>(69,005)</u>	<u>(243,132)</u>	<u>(68,173)</u>	<u>(674,656)</u>
Other financing sources (uses)							
Transfers in	-	-	-	-	739,058	156,971	1,260,894
Transfers out	-	-	-	-	-	(110,724)	(316,404)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>739,058</u>	<u>46,247</u>	<u>944,490</u>
Net changes in fund balances	<u>160,419</u>	<u>2,472</u>	<u>(15,427)</u>	<u>(69,005)</u>	<u>495,926</u>	<u>(21,926)</u>	<u>269,834</u>
Fund balances - beginning	<u>8,939</u>	<u>41,160</u>	<u>10,312</u>	<u>202,611</u>	<u>1,404,194</u>	<u>368,125</u>	<u>4,172,214</u>
Fund balances - ending	<u>\$ 169,358</u>	<u>\$ 43,632</u>	<u>\$ (5,115)</u>	<u>\$ 133,606</u>	<u>\$ 1,900,120</u>	<u>\$ 346,199</u>	<u>\$ 4,442,048</u>

Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2006

	City Capital Projects	School Capital Projects	Highway Projects Grant	Total Nonmajor Capital Projects
Assets				
Cash and cash equivalents	\$ 3,601,017	\$ 1,011,540	\$ -	\$ 4,612,557
Investments	1,971,470	-	-	1,971,470
Receivables, net of allowance				
Other	500,000	3,830	-	503,830
Restricted assets:				
Cash and cash equivalents	8,385,724	2,828,795	-	11,214,519
Total assets	\$ 14,458,211	\$ 3,844,165	\$ -	\$ 18,302,376
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 1,103,252	\$ 544,591	\$ -	\$ 1,647,843
Retainage payable	59,901	300,713	-	360,614
Due to other governments	997	-	-	997
Due to other funds	25,980	-	-	25,980
Advance from other funds	124,691	-	-	124,691
Total liabilities	1,314,821	845,304	-	2,160,125
Fund Balances				
Reserved for:				
Encumbrances	5,185,613	631,112	-	5,816,725
Advances	500,000	-	-	500,000
Unreserved:				
Designated	526,302	-	-	526,302
Undesignated	6,931,475	2,367,749	-	9,299,224
Total fund balances	13,143,390	2,998,861	-	16,142,251
Total liabilities and fund balances	\$ 14,458,211	\$ 3,844,165	\$ -	\$ 18,302,376

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2006

	City Capital Projects	School Capital Projects	Highway Projects Grant	Total Nonmajor Capital Projects
Revenues				
Intergovernmental	\$ 2,147,897	\$ 1,094,518	\$ -	\$ 3,242,415
Revenue from use of money and property	-	999	-	999
Miscellaneous	222,005	-	-	222,005
Total revenues	2,369,902	1,095,517	-	3,465,419
Expenditures				
Current operating expenditures				
Public works	3,108,725	-	-	3,108,725
Education	-	188,692	-	188,692
Capital outlay				
Capital general government	6,519,253	5,367,610	-	11,886,863
Debt service				
Issuance costs	19,921	7,857	-	27,778
Total expenditures	9,647,899	5,564,159	-	15,212,058
Deficiency of revenues over expenditures	(7,277,997)	(4,468,642)	-	(11,746,639)
Other financing sources (uses)				
Issuance of bonds	15,086,142	5,994,813	-	21,080,955
Premium on debt proceeds	265,810	104,839		370,649
Transfers in	3,204,313	-	-	3,204,313
Transfers out	-	-	(399,316)	(399,316)
Total other financing sources (uses)	18,556,265	6,099,652	(399,316)	24,256,601
Net changes in fund balances	11,278,268	1,631,010	(399,316)	12,509,962
Fund balances - beginning	1,865,122	1,367,851	399,316	3,632,289
Fund balances - ending	\$ 13,143,390	\$ 2,998,861	\$ -	\$ 16,142,251

Combining Statement of Fiduciary Net Assets
 Agency Funds
 June 30, 2006

	Special Welfare	Central Virginia Regional Radio Board	Total Agency
	<hr/>	<hr/>	<hr/>
Assets			
Cash and cash equivalents	\$ 95,862	\$ 102,417	\$ 198,279
	<hr/>	<hr/>	<hr/>
Total Assets	95,862	102,417	198,279
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	4,090	-	4,090
Amounts held for others	91,772	102,417	194,189
	<hr/>	<hr/>	<hr/>
Total Liabilities	95,862	102,417	198,279
	<hr/>	<hr/>	<hr/>
Net Assets	\$ -	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Special Welfare</u>				
Assets				
Cash and cash equivalents	\$ 85,586	\$ 174,189	\$ 163,913	\$ 95,862
Total Assets	<u>\$ 85,586</u>	<u>\$ 174,189</u>	<u>\$ 163,913</u>	<u>\$ 95,862</u>
Liabilities				
Accounts payable	\$ -	\$ 32,392	\$ 28,302	\$ 4,090
Amounts held for others	85,586	215,118	208,932	91,772
Total Liabilities	<u>\$ 85,586</u>	<u>\$ 247,510</u>	<u>\$ 237,234</u>	<u>\$ 95,862</u>
<u>Central Virginia Regional Radio Board</u>				
Assets				
Cash and cash equivalents	\$ 118,779	\$ 1,857,012	\$ 1,873,374	\$ 102,417
Total Assets	<u>\$ 118,779</u>	<u>\$ 1,857,012</u>	<u>\$ 1,873,374</u>	<u>\$ 102,417</u>
Liabilities				
Amounts held for others	\$ 118,779	\$ 1,451,479	\$ 1,467,841	\$ 102,417
Total Liabilities	<u>\$ 118,779</u>	<u>\$ 1,451,479</u>	<u>\$ 1,467,841</u>	<u>\$ 102,417</u>
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 204,365	\$ 2,031,201	\$ 2,037,287	\$ 198,279
Total Assets	<u>\$ 204,365</u>	<u>\$ 2,031,201</u>	<u>\$ 2,037,287</u>	<u>\$ 198,279</u>
Liabilities				
Accounts payable	\$ -	\$ 32,392	\$ 28,302	\$ 4,090
Amounts held for others	204,365	1,666,597	1,676,773	194,189
Total Liabilities	<u>\$ 204,365</u>	<u>\$ 1,698,989</u>	<u>\$ 1,705,075</u>	<u>\$ 198,279</u>

CITY OF LYNCHBURG, VIRGINIA

Discretely Presented Component Unit - Lynchburg City Schools
As of June 30, 2006

Discretely Presented Component Unit – Lynchburg City Schools:

The Lynchburg City Schools operates one pre-school, eleven elementary, three middle, and two high schools in the City. The funds and account groups of the schools are described below:

- School Operating Fund – Accounts for the primary operating activities of the Lynchburg City Schools.
- School Federal Aid Projects Fund – Accounts for the various federal and state grants for the educational purposes of the Lynchburg City Schools. Also accounts for the activities of the Central Virginia Governor’s School for Science and Technology, a regional program supported by the City of Lynchburg and four surrounding counties, for which Lynchburg City Schools serve as fiscal agent.
- School Cafeteria Fund – Accounts for revenues received from the sale of food in the Lynchburg City Schools.
- Permanent Fund – Accounts for funds invested with the Greater Lynchburg Community Trust for the support of education.

Discretely Presented Component Unit - Lynchburg City Schools
Combining Balance Sheet
June 30, 2006

	<u>School Operating</u>	<u>School Federal Aid</u>	<u>School Cafeteria</u>	<u>Total Governmental</u>
Assets				
Cash and cash equivalents	\$ 13,997,097	\$ 74,135	\$ 1,253,855	\$ 15,325,087
Cash and cash equivalents, restricted	172,424	-	-	172,424
Receivables, net	304,240	-	-	304,240
Due from other funds	1,196,863	-	-	1,196,863
Due from primary government	-	-	-	-
Due from other governments	954,580	1,771,699	-	2,726,279
Inventory	-	-	64,731	64,731
Total assets	<u>\$ 16,625,204</u>	<u>\$ 1,845,834</u>	<u>\$ 1,318,586</u>	<u>\$ 19,789,624</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 510,632	\$ 4,806	\$ 1,350	\$ 516,788
Due to other funds	-	1,161,056	35,807	1,196,863
Due to primary government	6,573,417	-	-	6,573,417
Deferred revenue	9,855	857	-	10,712
Accrued liabilities	8,668,119	632,159	5,087	9,305,365
Total liabilities	<u>15,762,023</u>	<u>1,798,878</u>	<u>42,244</u>	<u>17,603,145</u>
Fund balances:				
Reserved for:				
Encumbrances	690,757	29,015	-	719,772
Capital projects	172,424	-	-	172,424
Inventory	-	-	64,731	64,731
Unreserved:				
Undesignated	-	17,941	1,211,611	1,229,552
Total fund balances	<u>863,181</u>	<u>46,956</u>	<u>1,276,342</u>	<u>2,186,479</u>
Total liabilities and fund balances	<u>\$ 16,625,204</u>	<u>\$ 1,845,834</u>	<u>\$ 1,318,586</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds				1,991,421
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds				(2,699,677)
Net assets of governmental activities				<u>\$ 1,478,223</u>

Discretely Presented Component Unit - Lynchburg City Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2006

	School Operating	School Federal Aid	School Cafeteria	Total Governmental
Revenues				
Intergovernmental	\$ 71,207,508	\$ 5,916,612	\$ 2,103,792	\$ 79,227,912
Revenue from use of money and property	32,611	-	755	33,366
Charges for services	395,382	509,343	789,794	1,694,519
Miscellaneous	343,074	150,280	999	494,353
Total revenues	71,978,575	6,576,235	2,895,340	81,450,150
Expenditures				
Education:				
Instruction	55,484,371	5,713,786	-	61,198,157
Administration, attendance and health	2,424,016	69,125	-	2,493,141
Pupil transportation services	3,774,716	-	-	3,774,716
Operations and maintenance	8,890,256	39,434	2,613,255	11,542,945
Capital outlay	1,956,743	809,230	23,486	2,789,459
Debt service:				
Principal retirement	782,024	-	-	782,024
Interest payments	92,951	-	-	92,951
Total expenditures	73,405,077	6,631,575	2,636,741	82,673,393
Excess (deficiency) of revenues over expenditures	(1,426,502)	(55,340)	258,599	(1,223,243)
Other Financing Sources				
Capital lease proceeds	750,000	-	-	750,000
Net change in fund balances	(676,502)	(55,340)	258,599	(473,243)
Fund balance - beginning	1,539,683	102,296	1,017,743	
Fund balance - ending	\$ 863,181	\$ 46,956	\$ 1,276,342	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$509,994) was exceeded by depreciation expense (\$552,489) (42,495)

Compensated absences are not due and payable at June 30, and therefore are not reported in the fund statements. 59,238

The issuance of long term debt (e.g. capital leases) provides current financial resources to governmental funds, but has no effect on net assets. (750,000)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets. 782,024

Change in net assets of governmental activities. **\$ (424,476)**

Discretely Presented Component Unit - Lynchburg City Schools
School Operating Fund
Schedule of Revenues, Expenditures, and Other Financing Sources (Uses)
Budget and Actual
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 72,795,692	\$ 77,984,058	\$ 77,780,925	\$ (203,133)
Revenue from use of money and property	-	-	32,611	32,611
Charges for services	385,500	385,500	395,382	9,882
Miscellaneous	196,600	196,600	343,074	146,474
Total revenues	<u>73,377,792</u>	<u>78,566,158</u>	<u>78,551,992</u>	<u>(14,166)</u>
Expenditures				
Education:				
Instruction	56,714,617	57,833,217	55,484,371	2,348,846
Administration, attendance and health	2,539,062	2,750,462	2,424,016	326,446
Pupil transportation services	3,933,362	4,118,362	3,774,716	343,646
Operations and maintenance	8,541,091	8,643,091	8,890,256	(247,165)
Capital outlay	1,539,959	1,836,459	1,956,743	(120,284)
Debt service	859,701	859,701	874,975	(15,274)
Total expenditures	<u>74,127,792</u>	<u>76,041,292</u>	<u>73,405,077</u>	<u>2,636,215</u>
Excess of revenues over expenditures	<u>(750,000)</u>	<u>2,524,866</u>	<u>5,146,915</u>	<u>2,622,049</u>
Other Financing Sources				
Capital lease proceeds	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ 3,274,866</u>	<u>5,896,915</u>	<u>\$ 2,622,049</u>
Less return of funds to the City			(6,573,417)	
			<u>\$ (676,502)</u>	

**Discretely Presented Component Unit - Lynchburg City Schools
Agency Fund
Year Ended June 30, 2006**

	<u>Agency Fund</u>
Assets	
Investments	<u>\$ 98,554</u>
Liabilities	
Amounts held for others	<u>\$ 98,554</u>

Combining Statement of Net Assets
Other Component Units
June 30, 2006

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 635,986	\$ 31,478	\$ 667,464
Receivables (net of allowance for uncollectibles)	566,759	25,868	592,627
Due from primary government	-	184,254	184,254
Due from other governments	-	202,696	202,696
Prepaid and other assets	-	14,216	14,216
Inventory	-	124,317	124,317
Capital assets:			
Non-depreciable	-	55,031	55,031
Depreciable	6,027	3,135,671	3,141,698
Total assets	1,208,772	3,773,531	4,982,303
Liabilities			
Current liabilities:			
Accounts payable and other current liabilities	684,543	198,988	883,531
Notes payable, bank	-	338,211	338,211
Due to primary government	145,000	-	145,000
Total current liabilities	829,543	537,199	1,366,742
Noncurrent liabilities:			
Compensated absences	-	53,093	53,093
Total noncurrent liabilities	-	53,093	53,093
Total liabilities	829,543	590,292	1,419,835
Net assets			
Invested in capital assets, net of related debt	-	3,190,702	3,190,702
Restricted net assets	1,485	-	1,485
Net assets, unrestricted	377,744	(7,463)	370,281
Total net assets	\$ 379,229	\$ 3,183,239	\$ 3,562,468

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Other Component Units
Year Ended June 30, 2006

	Component Units		
	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating revenues			
Charges for services and other operating revenues	\$ 286,348	\$ 989,266	\$ 1,275,614
Total operating revenues	<u>286,348</u>	<u>989,266</u>	<u>1,275,614</u>
Operating expenses			
Operations	394,608	3,179,143	3,573,751
Administration	8,744	999,252	1,007,996
Maintenance and repairs	26,194	1,162,052	1,188,246
Total operating expenses	<u>429,546</u>	<u>5,340,447</u>	<u>5,769,993</u>
Operating loss	<u>(143,198)</u>	<u>(4,351,181)</u>	<u>(4,494,379)</u>
Nonoperating revenue (expense)			
Operating funds from City of Lynchburg	-	916,872	916,872
Operating funds from Counties	-	20,963	20,963
Donations and grants	149,813	2,246,311	2,396,124
Miscellaneous	-	10,476	10,476
Gain on sale of property and equipment	-	887	887
Total nonoperating revenue (expense)	<u>149,813</u>	<u>3,195,509</u>	<u>3,345,322</u>
Capital contributions	-	315,377	315,377
Change in net assets	<u>6,615</u>	<u>(840,295)</u>	<u>(833,680)</u>
Total net assets - beginning, as restated (Note 19)	<u>372,614</u>	<u>4,023,534</u>	<u>4,396,148</u>
Total net assets - ending	<u>\$ 379,229</u>	<u>\$ 3,183,239</u>	<u>\$ 3,562,468</u>

Combining Statement of Cash Flows
Other Component Units
Year Ended June 30, 2006

	Business Development Centre, Inc.	Greater Lynchburg Transit Company	Total
Operating activities			
Cash received from operations	\$ 388,871	\$ 979,848	\$ 1,368,719
Cash paid to employees	(225,484)	(1,608,889)	(1,834,373)
Cash paid to suppliers for goods and services	(237,225)	(2,754,561)	(2,991,786)
Cash (paid) refunded for interest	688	-	688
New loans disbursed	(291,000)	-	(291,000)
Net cash used in operating activities	(364,150)	(3,383,602)	(3,747,752)
Noncapital financing activities			
Subsidies	-	3,139,297	3,139,297
Operating grants and contributions	149,813	-	149,813
Net cash provided from noncapital financing activities	149,813	3,139,297	3,289,110
Capital and related financing activities			
Capital contributions	-	485,297	485,297
Net change in line of credit	-	158,211	158,211
Additions to capital assets	(3,200)	(395,302)	(398,502)
Increase in accounts payable for capital assets	-	-	-
Proceeds from sale of capital assets	-	887	887
Miscellaneous revenue	-	10,476	10,476
Net cash provided from (used in) capital and related financing activities	(3,200)	259,569	256,369
Net increase (decrease) in cash and cash equivalents/investments	(217,537)	15,264	(202,273)
Cash and cash equivalents/investments			
Beginning of year	853,523	16,214	869,737
End of year	\$ 635,986	\$ 31,478	\$ 667,464
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (143,198)	\$ (4,351,181)	\$ (4,494,379)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	813	959,954	960,767
Decrease (Increase) in receivables	(154,778)	1,062	(153,716)
Decrease in prepaid expenses and other assets	-	23,538	23,538
Increase in inventory	-	(8,610)	(8,610)
Increase (Decrease) in accounts payable and other current liabilities	(4,727)	(12,358)	(17,085)
Increase in compensated absences	-	3,993	3,993
Decrease in amounts due to primary government	(62,260)	-	(62,260)
Net cash provided by (used in) operating activities	\$ (364,150)	\$ (3,383,602)	\$ (3,747,752)
Supplemental cash flow information			
Non-cash capital and related financing activities:			
Accounts payable for capital assets at end of year	\$ -	\$ 46,719	\$ 46,719
Accounts payable for capital assets at beginning of year	-	(315,486)	(315,486)
Decrease in accounts payable for capital assets	\$ -	\$ (268,767)	\$ (268,767)

SUPPLEMENTAL SCHEDULES

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
PRIMARY GOVERNMENT		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Juvenile Justice:		
School Breakfast Program	10.553	\$ 58,743
National School Lunch Program	10.555	3,828
Department of Social Services:		
Food Stamp Administration	10.561	754,140
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Family Preservation and Support	93.556	116,899
TANF Block Grant	93.558	1,117,185
Refugee and Entrant Assistance State - Administered Programs	93.566	849
Low Income Energy Assistance	93.568	66,689
Child Care Assistance	93.575	410,329
Early Learning Opportunity	93.577	23,533
Child Care Development Fund	93.596	656,850
Chafee Education and Training Vouchers Program (ETV)	93.599	3,087
Foster Care - Title IV-E	93.658	1,267,617
Adoption Assistance	93.659	356,247
Social Services Block Grant	93.667	715,897
Independent Living	93.674	80,510
Children's Insurance Program	93.767	681
Medicaid Assistance	93.778	665,101
Fraud Free Program	Sec. 63.1-58.2	17,908
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	1,346,335
Shelter Plus Care	14.238	42,316
Home Investment Partnership Program	14.239	512,463
Lead Hazard Control	14.900	865,188
DEPARTMENT OF JUSTICE		
Direct Payments:		
Young Juvenile Offender	15.540	99,269
Local Law Enforcement Block Grant Program	16.592	37,777
Domestic Violence Block Grant	16.530	164,943
Bulletproof Vest Partnership	16.607	16,082
Community Prosecution and Project Safe Neighborhoods	16.609	156,367
Passed through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
Juvenile Accountability Incentive Block Grant	16.523	4,105
Victim-Witness Services	16.575	198,305
Byrne Formula Grant - Drug Control and Systems Improvements	16.579	92,824
COPS Inerrability	16.710	81,250
Justice Assistance	16.738	56,833
DEPARTMENT OF HISTORIC RESOURCES		
Direct Payments:		
Certified Local Government Grant	15.904	10,531
DEPARTMENT OF LABOR		
Passed through Commonwealth of Virginia:		
Employment and Training Administration:		
WIA Adult Program	17.258	336,235
WIA Youth Activities	17.259	335,406
WIA Dislocated Workers	17.260	287,146

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE 1

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
FEDERAL AVIATION ADMINISTRATION		
Direct Payments:		
Department of Aviation:		
Airport Improvement Program	20.106	\$ 438,235
DEPARTMENT OF TRANSPORTATION		
Passed through Commonwealth of Virginia:		
Department of Motor Vehicles:		
Alcohol Impaired Driving Grants	20.600	17,049
ENVIRONMENTAL PROTECTION AGENCY		
Passed through Commonwealth of Virginia:		
Virginia Resources Authority:		
Revolving Loan	66.458	4,339,217
EPA Grant	66.606	1,262,400
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Passed through Commonwealth of Virginia:		
Department of Emergency Services:		
2003 II All Hazards	97.008	40,214
Assistance Firefighters Act	97.044	128,285
Homeland Security	97.067	217,646
<u>COMPONENT UNIT - LYNCHBURG SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program	10.555	1,596,879
National School Breakfast Program	10.553	528,670
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Refugee and Entrant Assistance	93.576	2,635
DEPARTMENT OF EDUCATION		
Passed through Commonwealth of Virginia:		
Adult Education State Grant Program	84.002	83,673
Title I - Educationally Deprived Children - LEA	84.010	2,757,646
Title I - Neglected and Delinquent Children	84.013	6,671
Emergency Impact Aid for Displaced Students	84.938	24,750
Elementary and Secondary Education Act (ESEA):		
Title VI - Innovative Education Program Strategies	84.298	71,327
Title VI-B - Special Education	84.027	2,140,856
Special Education Preschool Grants	84.173	119,739
Technology Literacy Challenge Fund Grants	84.318	35,284
Advanced Placement Programs (Title I, Part G)	84.330	2,392
English Language Acquisition Grants	84.365	9,892
Title II - Part A Funds	84.367	804,302
State Assessments and Related Activities Grants (Title VI Part A, Subpart 1)	84.369	10,191
Vocational Education:		
Basic Grants to States	84.048	102,130
Drug Free Schools and Communities	84.186	45,983
Even Start	84.213	201,117
Total		<u>\$ 25,946,651</u>

CITY OF LYNCHBURG, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards

As of June 30, 2006

Note 1. Significant Accounting Policy

Basis of Accounting:

The accompanying schedule of federal awards is prepared on the modified accrual basis of accounting.

Note 2. Business Development Centre, Inc. – Revolving Loan Fund

The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows through the fiscal year ended June 30, 1998. No funds have been received since that date.

	Federal	State	Local
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received through June 30, 1994	127,836	-	33,612
Amount received through June 30, 1995	44,027	-	14,676
Amount received through June 30, 1996	108,201	-	36,067
Bad debt charge off for the year ended June 30, 1996	(3,005)	-	(1,002)
Amount received through June 30, 1997	10,268	-	3,423
Recapitalized from earnings for the year ended June 30, 1997	3,005	-	1,002
Amount received through June 30, 1998	159,668	40,000	13,222
	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

Note 3. Non-monetary Assistance

Non-monetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities.

CITY OF LYNCHBURG, VIRGINIA

Notes To Schedule of Expenditures of Federal Awards

As of June 30, 2006

Note 4. Subgrantees

The federal expenditures for the Community Development Block Grant, the Home Investment Partnership, and the Workforce Investment Act Cluster programs include grants to subrecipients as follows:

Subrecipient	Community Development Block Grant	Home Investment Partnership Act	Workforce Investment Act Cluster
Amazement Square Museum	\$ 17,067	\$ -	\$ -
Camp Kum-Ba-Yah	20,235	-	-
College Hill Neighborhood	12,974	-	-
Dance Theatre of Lynchburg	22,064	-	-
Dominion Sports	17,000	-	-
Greater Lynchburg Habitat	-	42,000	-
Interfaith Outreach	2,768	-	-
Legacy Project	10,956	-	-
Lynchburg City Schools	43,700	-	-
Lynchburg Community Action Group	152,139	164,131	-
Lynchburg Covenant Fellowship	29,500	-	-
Lynch's Landing	54,835	-	-
Lynchburg Neighborhood	96	302,058	-
Lynchburg Redevelopment & Housing Authority	438,681	-	-
Miriam's House	25,000	-	-
New Land Industries	15,000	-	-
New Land Samaritan Inn	22,500	-	-
Rebuilding Together with Christmas in April	77,569	-	-
Rush Lifetime Homes	12,988	-	-
White Rock Hill Neighborhood	7,567	-	-
YWCA	100,920	-	-
Region 2000 Local Governmental Council	-	-	958,787
	<u>\$ 1,083,559</u>	<u>\$ 508,189</u>	<u>\$ 958,787</u>

Note 5. Program Income

In accordance with the terms of the Community Development Block Grant Program, program income totaling \$103,992 was used to reduce the amount of federal funds in conjunction with the program's objective.

Note 6. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2006, the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$70,542,685, which includes 21,531,494 of federal funds.

SCHEDULE 2

CITY OF LYNCHBURG, VIRGINIA

Schedule of Passenger Facility Charges

As of June 30, 2006

Passenger Facility Charges:

<u>Federal Agency/Program Name/Application Number</u>	<u>PFC Balance July 1, 2005</u>	<u>Adjustments</u>	<u>PFC Collected</u>	<u>Interest Earnings</u>	<u>Expenditures</u>	<u>PFC Balance June 30, 2006</u>
FEDERAL AVIATION ADMINISTRATION						
Passenger facility charges (95-01-C-00-LYH)	\$ 1,730	\$ (1,730)	\$ -	\$ -	\$ -	\$ -
Passenger facility charges (01-03-C-00-LYH)	5,885	(5,885)	-	-	-	-
Passenger facility charges (05-04-C-00-LYH)	54,465	7,615	248,331	7,104	5,466	312,049
	<u>\$ 62,080</u>	<u>\$ -</u>	<u>\$ 248,331</u>	<u>\$ 7,104</u>	<u>\$ 5,466</u>	<u>\$ 312,049</u>

SCHEDULE 3**CITY OF LYNCHBURG, VIRGINIA**

Schedule of Expenditures of Passenger Facility Charges

As of June 30, 2006

Expenditures of Passenger Facility Charges:

<u>Project</u>	<u>PFC Expenditures</u>
<u>Application 1 (95-01-C-00-LYH)</u>	
Local share reimbursement (non-AIP) Easement Acquisition – Part 77	\$ -
<u>Application 3 (01-03-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC development and administrative costs	-
<u>Application 4 (05-04-C-00-LYH)</u>	
Local share reimbursement (non-AIP) PFC development and administrative costs	<u>5,466</u>
Total PFC expenditures	<u>\$ 5,466</u>

The accompanying schedule of expenditures of passenger facility charges includes the passenger facility charge activity of the City, and is presented on the cash basis of accounting. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in preparation of, the basic financial statements.

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STATISTICAL SECTION

CITY OF LYNCHBURG, VIRGINIA
MISCELLANEOUS STATISTICAL DATA
June 30, 2006

DATE OF INCORPORATION

Lynchburg was founded by John Lynch in 1757, established as a town in October 1786, incorporated as a town on January 10, 1805, and received independent city status in 1852.

AREA OF CITY

The area of the City consists of 50.107 square miles.

POPULATION

United States Census 1990 (1).....	66,743
United States Census 2000 (1).....	65,269
United States Census 2005 (1).....	68,000

(1) Source: Weldon Cooper Center for Public Service,
www.coopercenter.org

FORM OF GOVERNMENT

Lynchburg is organized under the Council – Manager form of government. The City Council, comprised of seven members, is elected on either an at-large (3 members) or ward (4 members) representative basis for four-year staggered terms of office. From among the elected City Council members, they choose on or near July 1 of each election year by simple majority vote a Mayor, who serves a two-year term.

Appointed by the City Council, the City Manager serves as the chief administrative officer of the municipal corporation. The City Manager performs the City's administrative and policy-related duties, directs business procedures and has the power of appointment and removal of the heads of all administrative departments as well as other employees of the City. The City Manager's primary focus is on helping Council set priorities, interpreting City Council's actions to the appropriate department, outside organizations and citizens, and providing professional leadership in executing the adopted policies of City Council.

SEGREGATION OF TAXABLE SUBJECTS FOR LOCAL TAXATION ONLY

By an Act of the General Assembly of Virginia, approved March 31, 1926, all real estate, tangible personal property, and machinery used for manufacturing purposes, were segregated to the City, and those subjects are not liable to any general tax except the City tax.

ASSESSMENTS

The City Assessor of Real Estate appraises the market value of real estate on a biannual assessment cycle. The entire City is reviewed every other year (with values effective the first day of July of the odd years) and adjustments are made where necessary based upon market evidence indicating a change in the value.

The Commissioner of Revenue is required by law to assess vehicles and motorcycles by means of a recognized pricing guide. For most other personal property, the assessed value is based on a percentage of original cost.

(Continued)

TAX RATES

The Commissioner of Revenue, as required by the *Code of Virginia*, assesses tangible personal property and machinery and tools. The City prorates personal property on a monthly basis.

Real Estate:

- \$1.11 per \$100 assessed value: 1997 – 2006
- \$1.13 per \$100 assessed value: 1996
- \$1.16 per \$100 assessed value: 1994-1995
- \$1.18 per \$100 assessed value: 1991-1993

Tangible Personal Property:

- \$3.80 per \$100 assessed value: 2005-2006
- \$3.30 per \$100 assessed value: 1990-2004

Machinery and Tools:

- \$3.00 per \$100 assessed value: 1990-2006

Local Sales Tax:

- 1 % + 4.0 % VA tax: 2004-2006
- 1 % + 3.5 % VA tax: 1998-2003

Utility Consumers Tax:

- Electricity:
 - Residential – the greater of: \$0.0046 for the first 1,000 kwh (or a fraction thereof) plus \$0.0026 for each kwh over the first 1,000 kwh, or 7% of the minimum monthly charge.
 - Commercial – the greater of: \$0.0048 for the first 1,000 kwh (or a fraction thereof) plus \$0.0092 for each kwh over the first 1,000 kwh, or 7% of the minimum monthly charge.
 - Industrial Commercial – the greater of: \$0.00375 for the first 1,000 kwh (or a fraction thereof) plus \$0.0026 for each kwh over the first 1,000 kwh, or 7% of the minimum monthly charge.
- Telephone (land line):
 - 7 % of the total bill excluding long distance
- Telephone (cellular):
 - 10 % of the first \$30, or \$3.00

Business, Professional, and Occupational License:

For Business with Gross Receipts/Purchases Exceeding Threshold:

- Threshold
 - Receipts/Purchases less than \$10,000, no fee
 - Receipts/Purchases \$10,001-\$50,000, \$30 flat fee
 - Receipts/Purchases \$50,001-100,000, \$50 flat fee
- Contractors – \$0.16 per \$ 100 of gross receipts
- Retail Merchants – \$0.20 per \$100 of gross receipts
- Wholesale Merchants – \$0.28 per \$100 of gross receipts/purchases, plus \$20 fee when gross purchases are over \$100,000
- Repair, Personal, Business, and Other Services – \$0.36 per \$100 of gross receipts
- Financial, Real Estate, and Professional Services – \$0.58 per \$100 of gross receipts

Motor Vehicle License:

- \$29.50 for vehicles weighing 4,000 pounds or less: 2004-2006
- \$34.50 for weighting grater than \$4,000 pounds: 2004-2006
- \$25.00 for all types of vehicles: 1990-2003.

Tobacco Tax:

- \$0.35 on pack of twenty cigarettes: 2004-2006
- \$0.15 on pack of twenty cigarettes: 1990-2006

Lodging Tax:

- A tax of 5.5% of the charge made for each room rented per night. In FY 2001, Lynchburg changed the lodging tax from 5.5% to 5.5% plus \$1 per night. Of the total lodging taxes, 36% is allocated for tourism.

Meals Tax:

- A tax of 6.5% on prepared meals sold in the City in addition to Sales Tax. In FY 2004, Lynchburg changed the meals tax from 6.0% to 6.5%.

Ambulance Services:

- Basic Life Services – for the incidents classified as an emergency, the charge is \$350 and additional \$8 for each mile the patient is transported. If it is classified as a non-emergency, the charge is \$325.
- Advanced Life Support – for the incidents classified as an emergency, the fee is \$450; non-emergency - \$425.
- A fee of \$575 is charged if three or more different medications are combined with at least one Advanced Life Support procedure.

TAXES DUE

Real estate taxes are assessed as of the first day of July each year. Supplemental real estate taxes are levied in June to reflect construction in progress during the fiscal year with a tax due date in August. Real estate taxes are payable in four quarterly installments on November 15, January 15, March 15, and May 15. If paid thereafter, a 10% penalty and interest at the rate of 10% per annum is added.

For FY 2006 personal property taxes were due November 15, 2005 for calendar year 2005 levy. Due to the implementation of a semi-annual billing process, the first installment of personal property taxes for calendar year 2006 levy was due June 15, 2006 with the second installment due December 5, 2006. Future installments will be due June 5 and December 5. Additional billings for personal property acquisitions will be due February 5 and August 5.

DELINQUENT TAXES

Real estate and personal property taxes are reported delinquent the day after the due date. Therefore, the day after each installment due date, if the taxes are unpaid, they are considered delinquent.

OVERLAPPING AREAS AND DEBT

The City of Lynchburg, Virginia is autonomous and entirely independent of any county or any other political subdivision of the state, being a separate and distinct political unit since 1852.

The City is not coterminous with, nor subject to any county or school district taxation, and is not liable for any indebtedness other than its own. It has the power to levy taxes on all real and tangible personal property without limitation of rate or amount.

FUND BALANCE POLICY

The City Council adopted a resolution in 1999 that was amended in 2002 and reaffirmed in 2004, which established a major policy goal for the Undesignated General Fund Balance. The policy requires that the Undesignated General Fund Balance be maintained at a level to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The Fund Balance Policy states:

- The City will maintain a minimum Undesignated General Fund Balance equal to 7% of General Fund revenues, with a targeted goal equal to 10% of General Fund revenues. In the event the Undesignated General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the City shall restore the Undesignated General Fund Balance to the minimum of 7% within two fiscal years. If the Undesignated General Fund Balance falls below the target of 10%, the City shall restore the Undesignated General Fund Balance to the 10% target within five fiscal years.
- The City shall not use the Undesignated General Fund Balance to finance recurring operating expenditures.
- Funds in excess of the targeted 10% fund balance may be considered to supplement “pay-as-you-go” capital outlay expenditures, other non-recurring expenditures or as additions to fund balance.

DEBT MANAGEMENT POLICY

The City Council adopted a resolution on August 10, 1999 that was amended in 2002 and reaffirmed in 2004, establishing guidelines for the planning, issuance and management of debt, for and on behalf of the City of Lynchburg, Virginia. The City issues debt for the purpose of acquiring or constructing capital projects and for making major renovations to existing capital assets. The City complies with Securities and Exchange Commission Rule 15c2-12 and follows the Government Finance Officers’ Association and Securities and Exchange Commission requirements for continuing disclosure. Two types of debt obligations are used by the City:

- Tax supported obligations are those that are expected to be repaid from the General Fund tax revenue of the City of Lynchburg, Virginia. These include general obligation bonds (except self-supporting bonds) and capital leases. General obligation bonds issued for self-supporting enterprise funds are not included in calculations of tax-supported bonds.
- Revenue-supported obligations are those for which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities (i.e. water, sewer, solid waste). These are not considered tax-supported debt of the City.

The City may use the Virginia Public School Authority (VPSA) or State Literary Fund loans to finance school capital projects. City bonds sold to support the VPSA and Literary Fund loans constitute general obligation debt of the City. City Council approves any application to the VPSA or the Department of Education for a Literary Fund loan. City Council approves the issuance of the bonds as required by the Public Finance Act. The School Board recommends such financings before a proposed financing is brought to City Council for approval.

BUDGET POLICY

The City Council adopted a resolution on November 14, 2000 that was amended in 2002 and reaffirmed in 2004, establishing guidelines for the adoption of the annual budget for the City of Lynchburg, Virginia.

Principles

- Public participation in the budgetary process will be encouraged.
- The City will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.
- The budget process will be coordinated in a way that major policy issues are identified for City Council several months prior to consideration of budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Quarterly Financial Reporting

The City Manager will present to the City Council's Finance Committee (with copies to the remainder of Council) quarterly financial reports identifying meaningful trends in revenues and expenditures for the General, Water and Sewer, Airport, Stadium, Juvenile Detention, Comprehensive Services Act and Solid Waste Management Funds.

Third Quarter Review

In mid-March, City staff will evaluate all expenditures and revenues as compared to budget and make recommendations to City Council regarding possible adjustments. Section 15.2-2507 of the *Code of Virginia* requires that a public hearing be held prior to City Council action when the potential increases in the appropriation are greater than \$500,000 or one percent of revenues.

INVESTMENT POLICY

The City Council adopted an Investment Policy on September 25, 2001 that was amended in 2002 and reaffirmed in 2004, establishing specific requirements or limitations imposed upon the investment of Bond Proceeds, Debt Service Funds and Debt Service Reserve Funds. It is the policy of the City of Lynchburg, Virginia that the investment and administration of its funds be made in accordance with the *Code of Virginia* Investment of Public Funds Act, the applicable provisions of any outstanding bond indebtedness, and this policy. It is the intent of the City to be in complete compliance with all applicable federal, state and local laws, and other regulations and statutes governing the investment of public funds. Within those parameters, the goal of this policy is to achieve the highest rate of return that is reasonable. The City has established an Investment Committee consisting of the City Manager, Deputy City Manager, and Director of Financial Services. This Committee provides broad policy oversight over investments. This policy is reviewed on an annual basis. Any changes must be approved by the Investment Committee and be reaffirmed by City Council.

**NET ASSETS BY COMPONENT,
LAST FIVE FISCAL YEARS**
(accrual basis of accounting)

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 127,767,609	\$ 130,892,517	\$ 135,832,636	\$ 140,548,447	\$ 139,205,720
Restricted	5,212,611	55,409	-	-	-
Unrestricted	20,948,687	30,244,439	32,330,375	33,754,620	46,658,423
Total governmental activities net assets	<u>\$ 153,928,907</u>	<u>\$ 161,192,365</u>	<u>\$ 168,163,011</u>	<u>\$ 174,303,067</u>	<u>\$ 185,864,143</u>
Business-type Activities					
Invested in capital assets, net of related debt	\$ 106,057,802	\$ 105,589,397	\$ 112,022,931	\$ 119,234,122	\$ 125,543,179
Restricted	1,055,706	7,184,652	-	-	-
Unrestricted	14,399,615	15,561,278	22,972,124	26,928,368	312,049
	-	-	-	-	29,355,800
Total business-type Activities net assets	<u>\$ 121,513,123</u>	<u>\$ 128,335,327</u>	<u>\$ 134,995,055</u>	<u>\$ 146,162,490</u>	<u>\$ 155,211,028</u>
Primary government					
Invested in capital assets, net of related debt	\$ 233,825,411	\$ 236,481,914	\$ 247,855,567	\$ 259,782,569	\$ 264,748,899
Restricted	6,268,317	7,240,061	-	-	312,049
Unrestricted	35,348,302	45,805,717	55,302,499	60,682,988	76,014,223
Total primary government net assets	<u>\$ 275,442,030</u>	<u>\$ 289,527,692</u>	<u>\$ 303,158,066</u>	<u>\$ 320,465,557</u>	<u>\$ 341,075,171</u>

Note: The City of Lynchburg began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

**CHANGES IN NET ASSETS,
LAST FIVE FISCAL YEARS**
(accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental Activities:					
General Government	\$ 13,407,536	\$ 15,127,680	\$ 9,474,943	\$ 10,120,602	\$ 11,258,752
Judicial	3,455,684	3,846,581	4,336,165	4,717,917	5,099,725
Public Safety	28,899,317	28,911,487	33,858,886	35,823,077	39,639,402
Public Works	17,930,578	20,819,441	17,638,226	18,764,769	20,760,247
Health and Human Services	19,122,950	19,704,149	20,391,462	21,328,976	21,054,773
Culture and Recreation	2,098,535	4,262,645	7,895,722	8,195,390	8,943,345
Community Development	6,403,903	5,298,688	10,373,473	6,375,560	6,469,555
Education	39,746,612	28,371,163	27,680,572	28,638,013	32,618,426
Interest and Fiscal Changes	2,334,975	4,230,625	3,520,381	4,634,912	4,999,355
Non-departmental	3,327,441	2,806,878	-	-	-
Issuance Cost	-	-	-	192,828	173,943
Total governmental activities expenses	136,727,531	133,379,337	135,169,830	138,792,044	151,017,523
Business-type Activities:					
Solid Waste Management	4,805,161	5,488,691	6,902,366	5,794,660	5,599,954
Airport	3,178,673	3,118,741	3,623,207	3,405,121	3,505,550
Water	8,052,358	7,855,213	8,859,383	8,743,519	9,273,940
Sewer	10,677,119	11,093,129	13,165,634	11,800,236	12,431,230
Total business-type activities expenses	26,713,311	27,555,774	32,550,590	29,743,536	30,810,674
Total primary government expenses	\$ 163,440,842	\$ 160,935,111	\$ 167,720,420	\$ 168,535,580	\$ 181,828,197
Program Revenues (see Table 3)					
Governmental Activities:					
Charges for services:					
General Government	\$ 693,327	\$ 284,055	\$ 416,760	\$ 401,099	\$ 466,636
Culture and Recreation	530,239	517,625	1,350,148	1,675,398	1,810,243
Other Activities	8,624,034	6,606,236	5,767,254	7,025,208	8,623,762
Operating Grants and Contributions	26,702,238	28,241,733	34,083,736	29,927,625	32,475,807
Capital Grants and Contributions	3,014,959	3,353,102	2,062,659	4,119,640	2,435,928
Total governmental activities program revenues	39,564,797	39,002,751	43,680,557	43,148,970	45,812,376
Business-type Activities:					
Charges for services:					
Solid Waste Management	4,842,010	5,459,258	6,352,423	6,985,739	7,219,229
Airport	1,187,905	1,586,178	1,480,543	1,637,730	1,762,826
Water	8,312,263	8,607,032	9,001,806	9,488,676	10,352,303
Sewer	12,705,123	13,932,357	13,919,612	14,682,219	15,405,174
Operating Grants and Contributions	508,357	423,729	272,894	311,173	415,801
Capital Grants and Contributions	7,602,178	3,982,334	7,203,733	5,562,333	3,066,896
Total business-type activities program revenues	35,157,836	33,990,888	38,231,011	38,667,870	38,222,229
Total primary government program revenues	\$ 74,722,633	\$ 72,993,639	\$ 81,911,568	\$ 81,816,840	\$ 84,034,605
Net (Expense) Revenue					
Governmental Activities	\$ (97,162,734)	\$ (94,376,586)	\$ (91,489,273)	\$ (95,643,074)	\$ (105,205,147)
Business-type Activities	8,444,525	6,435,114	5,680,421	8,924,334	7,411,555
Total Primary Government Net Expenses	\$ (88,718,209)	\$ (87,941,472)	\$ (85,808,852)	\$ (86,718,740)	\$ (97,793,592)

CHANGES IN NET ASSETS (Continued)
LAST FIVE FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes					
Property taxes	\$ 44,751,894	\$ 43,783,096	\$ 47,696,680	\$ 49,831,096	\$ 60,191,431
Local sales and use taxes	11,905,178	11,027,631	11,528,820	12,221,811	13,319,691
Meals taxes	6,924,931	6,984,195	7,561,387	8,666,117	9,423,830
Consumer utility taxes	6,183,638	6,826,740	6,892,926	8,397,849	6,840,948
Business license taxes	6,561,439	6,712,152	6,507,848	7,032,917	7,675,284
Other taxes	5,831,208	6,037,923	6,509,095	6,096,139	6,794,113
Unrestricted intergovernmental	8,627,063	8,961,598	8,450,138	8,405,457	9,434,886
Investment earnings	987,575	613,103	235,434	954,317	1,785,705
Miscellaneous	2,775,382	3,008,299	1,234,747	1,090,845	1,605,259
Transfers	1,322,247	571,552	(217,924)	(469,136)	(304,924)
Gain/(Loss) on sale of assets	277,308	122,302	(22,450)	(705,032)	-
Total governmental activities	96,147,863	94,648,591	96,376,701	101,522,380	116,766,223
Business-type activities:					
Investment Earnings	852,564	952,358	340,736	582,522	1,248,981
Miscellaneous	72,254	196,873	331,018	105,329	83,078
Transfers	(1,322,247)	(571,552)	217,924	469,136	304,924
Loss on sale of assets	(15,141)	(190,589)	(334,742)	(363,989)	-
Total business-type activities	(412,570)	387,090	554,936	792,998	1,636,983
Total primary government	\$ 95,735,293	\$ 95,035,681	\$ 96,931,637	\$ 102,315,378	\$ 118,403,206
Changes in Net Assets					
Governmental activities	\$ (1,014,871)	\$ 272,005	\$ 4,887,428	\$ 5,879,306	\$ 11,561,076
Business-type activities	8,031,955	6,822,204	6,235,357	9,717,332	9,048,538
Total primary government	\$ 7,017,084	\$ 7,094,209	\$ 11,122,785	\$ 15,596,638	\$ 20,609,614

Note: The City of Lynchburg began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

**PROGRAM REVENUES BY FUNCTION/PROGRAM,
LAST FIVE FISCAL YEARS**
(accrual basis of accounting)

	Program Revenues				
	2002	2003	2004	2005	2006
Function/Program					
Governmental Activities:					
General Government	\$ 1,026,760	\$ 577,940	\$ 716,128	\$ 726,708	\$ 785,105
Judicial	1,849,060	2,777,001	2,790,371	3,716,905	3,907,807
Public Safety	10,624,762	7,356,929	6,588,169	6,235,060	8,551,169
Public Works	10,057,326	8,854,787	7,557,688	8,821,426	9,246,609
Health and Human Services	10,973,496	13,065,116	15,501,010	15,273,759	15,728,602
Culture and Recreation	745,962	737,337	2,143,741	1,973,444	2,085,063
Community Development	4,226,879	4,004,873	7,060,174	3,114,730	3,658,669
Education	60,552	1,628,768	1,323,276	3,286,938	1,849,352
Subtotal governmental activities	39,564,797	39,002,751	43,680,557	43,148,970	45,812,376
Business-type Activities:					
Solid Waste Management	5,040,888	5,650,297	6,554,259	7,185,377	7,423,363
Airport	2,689,846	2,554,723	4,004,944	3,213,025	3,468,328
Water	8,312,263	8,607,032	9,001,806	9,697,544	10,352,303
Sewer	19,114,839	17,178,836	18,670,002	18,571,924	16,978,235
Subtotal business-type activities	35,157,836	33,990,888	38,231,011	38,667,870	38,222,229
Total primary government	\$ 74,722,633	\$ 72,993,639	\$ 81,911,568	\$ 81,816,840	\$ 84,034,605

CITY OF LYNCHBURG, VIRGINIA

TABLE 4

FUND BALANCES, GOVERNMENTAL FUNDS,
LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund										
Reserved	\$ 1,847,237	\$ 2,045,899	\$ 1,865,889	\$ 1,309,512	\$ 493,057	\$ 438,570	\$ 944,980	\$ 933,133	\$ 1,131,403	\$ 879,657
Unreserved	26,022,120	24,800,516	25,732,167	26,067,639	20,741,941	22,143,078	20,912,864	22,830,309	25,356,742	35,906,892
Total General Fund	<u>\$ 27,869,357</u>	<u>\$ 26,846,415</u>	<u>\$ 27,598,056</u>	<u>\$ 27,377,151</u>	<u>\$ 21,234,998</u>	<u>\$ 22,581,648</u>	<u>\$ 21,857,844</u>	<u>\$ 23,763,442</u>	<u>\$ 26,488,145</u>	<u>\$ 36,786,549</u>
All Other Governmental Funds										
Reserved	\$ 131,321	\$ 1,379,932	\$ 98,981	\$ 837,937	\$ 467,111	\$ 408,325	\$ 2,539,641	\$ 14,416,749	\$ 6,941,128	\$ 6,687,005
Unreserved, reported in:										
Special revenue funds	1,808,472	909,148	1,338,609	(251,968)	2,259,604	1,148,588	3,019,561	3,901,971	3,464,014	4,071,768
Capital projects funds	1,952,892	6,903,146	7,978,944	(627,007)	5,358,356	969,282	3,185,163	730,434	(2,600,639)	9,825,526
Total All Other Governmental Funds	<u>\$ 3,892,685</u>	<u>\$ 9,192,226</u>	<u>\$ 9,416,534</u>	<u>\$ (41,038)</u>	<u>\$ 8,085,071</u>	<u>\$ 2,526,195</u>	<u>\$ 8,744,365</u>	<u>\$ 19,049,154</u>	<u>\$ 7,804,503</u>	<u>\$ 20,584,299</u>

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$68,536,138	\$71,723,052	\$ 74,095,046	\$75,261,807	\$ 78,904,476	\$ 79,972,330	\$81,766,514	\$86,781,006	\$ 92,733,402	\$ 103,986,837
Regulatory licenses, permits and privilege fees	422,388	392,751	492,100	671,067	700,188	727,489	675,311	738,887	635,880	1,025,782
Intergovernmental	23,292,787	31,330,140	30,324,244	31,498,320	38,900,160	36,758,660	39,762,030	42,590,744	40,066,285	43,636,173
Fines and forfeitures	542,724	679,268	792,086	807,230	733,148	776,701	538,753	551,716	552,797	593,518
Revenue from use of money and property	2,908,223	3,853,335	2,439,515	2,972,228	2,761,993	1,653,469	1,070,082	1,473,169	2,236,442	3,092,260
Charges for services	5,038,193	5,673,819	6,317,948	6,929,195	7,249,832	6,588,909	5,725,305	8,384,511	9,968,139	10,362,547
Miscellaneous	3,611,811	2,978,666	4,235,538	3,737,036	3,649,751	3,496,031	4,618,072	3,125,934	1,880,832	2,158,618
Total revenues	104,352,264	116,631,031	118,696,477	121,876,883	132,899,548	129,973,589	134,156,067	143,645,967	148,073,777	164,855,735
Expenditures										
Current Operating Expenditures:										
General government	13,714,992	15,190,387	15,615,422	10,631,360	10,292,091	13,258,157	14,601,433	12,130,482	12,772,780	13,581,212
Judicial	3,817,561	4,042,190	2,193,554	2,949,446	3,405,999	3,320,619	3,699,569	4,134,506	4,573,231	4,906,117
Public safety	15,174,649	18,133,322	19,882,774	26,389,286	27,278,757	27,910,760	27,475,148	33,129,964	35,179,870	37,845,057
Public works	11,248,768	10,952,078	15,836,081	16,584,960	13,127,121	12,112,402	13,549,915	10,271,407	16,347,027	14,946,287
Health and human services	12,610,992	14,523,258	16,490,727	16,922,265	17,597,486	18,738,254	17,590,464	26,853,682	20,883,082	20,815,071
Cultural and recreational	2,664,054	2,897,439	1,343,898	1,621,449	1,668,327	1,717,189	3,929,095	7,549,794	7,770,918	8,315,378
Community development	3,364,828	8,685,881	3,887,211	6,224,694	7,732,311	6,401,530	4,820,850	8,514,631	6,352,211	6,333,310
Education ¹	-	-	-	-	-	3,644	27,025,411	26,005,227	27,714,269	30,083,455
Non-departmental ²	4,115,884	4,246,200	4,576,635	5,531,207	4,925,107	3,327,441	2,806,878	-	-	-
Capital Outlay	16,657,780	12,361,228	4,832,682	12,177,055	8,706,840	6,548,077	10,402,729	25,350,920	13,049,200	11,886,863
Debt Service	3,482,039	3,907,244	10,428,347	3,834,123	3,787,898	5,219,573	23,058,352	18,957,684	7,431,610	18,870,007
Interest payments and other fiscal charges	2,104,853	2,309,878	2,516,335	2,253,317	2,493,702	2,357,402	3,862,166	4,417,364	4,584,994	4,554,384
Insurance costs	-	-	-	-	-	-	-	-	192,826	173,943
Total expenditures	88,956,400	97,249,105	97,603,666	105,119,162	101,015,639	100,915,048	152,822,010	177,315,661	156,852,018	172,311,084
Excess (deficiency) of revenues over expenditures	15,395,864	19,381,926	21,092,811	16,757,721	31,883,909	29,058,541	(18,665,943)	(33,669,694)	(8,778,241)	(7,455,349)
Other Financing Sources (Uses)										
Issuance of bonds	4,747,415	13,148,254	7,830,110	3,345,000	6,255,575	-	26,306,594	47,234,898	-	31,725,694
Premium on debt proceeds	-	-	-	-	-	-	-	-	-	732,486
Construction advance ³	-	-	-	-	-	-	(3,525,664)	-	-	-
Issuance of refunding bonds	-	3,011,198	706,312	-	-	-	-	-	26,322,927	-
Issuance of refunding capital lease	3,287,161	-	4,245,891	-	-	-	-	-	1,679,825	-
Payments to escrow agent	-	(2,992,954)	-	-	-	-	-	-	(28,063,727)	-
Proceeds from sale of assets	985,000	-	-	-	-	-	-	-	-	-
Capital contributions	-	-	-	-	-	-	-	-	1,938,525	-
Transfers to component units	(25,793,858)	(27,322,562)	(27,787,372)	(29,043,108)	(30,634,768)	(31,462,089)	-	-	-	-
Transfers in	3,702,071	6,198,789	4,245,891	6,094,699	7,338,468	3,324,609	6,660,812	6,857,148	4,731,105	4,969,990
Transfers out	(4,788,297)	(7,090,579)	(5,111,803)	(6,832,789)	(11,707,086)	(5,133,287)	(7,786,893)	(8,544,661)	(6,550,242)	(6,894,621)
Total other financing sources (uses)	(17,860,508)	(15,047,854)	(20,116,862)	(26,436,198)	(28,747,811)	(33,270,767)	21,654,849	45,547,385	58,413	30,533,549
Net change in fund balances	\$(2,464,644)	\$ 4,334,072	\$ 975,949	\$(9,678,477)	\$ 3,136,098	\$(4,212,226)	\$ 2,988,906	\$11,877,691	\$(8,719,828)	23,078,200
Debt Service as a percentage of noncapital expenditures	7.73%	7.32%	13.95%	6.55%	6.80%	8.03%	18.90%	15.38%	8.49%	14.70%

¹ Education was included in transfers to component units prior to FY 2003.² Non-departmental expenditures began being allocated in FY 2004.³ The construction advance was to fund the E.C. Glass High School renovation project that was ahead of the projected schedule for completion.

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues:					
Taxes	\$ 79,972,330	\$ 80,652,301	\$ 85,774,800	\$ 91,739,497	\$ 103,012,216
Regulatory licenses, permits, and privilege fees	727,489	675,311	738,887	635,880	1,025,782
Intergovernmental	26,464,743	28,410,482	27,295,898	27,321,323	30,391,990
Fines & forfeitures	776,701	538,753	551,716	552,797	593,518
Revenues from use of money & property	1,395,847	920,401	797,531	1,373,658	2,130,172
Charges for services	3,177,610	3,486,991	6,371,250	6,442,510	7,376,311
Miscellaneous	3,009,763	3,283,568	666,969	955,066	1,261,164
Total revenues	115,524,483	117,967,807	122,197,051	129,020,731	145,791,153
Expenditures:					
Current operating expenditures:					
General government	13,258,157	14,421,107	11,960,240	12,499,485	13,176,072
Judicial	3,320,619	3,560,726	3,303,952	3,536,008	3,827,095
Public safety	21,951,566	22,472,414	29,178,810	31,113,303	32,782,350
Public works	11,998,157	13,541,234	10,244,342	10,616,660	11,801,684
Health and human services	14,844,129	14,596,916	21,317,811	15,744,061	16,111,220
Cultural & recreational	1,637,069	3,874,887	6,427,237	6,466,171	6,926,949
Community development	3,133,884	2,082,214	3,102,768	3,874,987	3,559,260
Education ¹	-	27,025,411	26,005,227	27,125,060	29,894,763
Non-departmental	3,327,391	2,683,294	-	-	-
Debt service:					
Principal retirements	3,293,886	21,322,543	17,839,066	7,024,174	18,326,124
Interest payments and other fiscal charges	1,882,148	3,479,744	3,848,634	4,246,388	4,273,525
Issuance costs	-	-	-	161,433	146,165
Total expenditures	78,647,006	129,060,490	133,228,087	122,407,730	140,825,207
Excess (deficiency) of revenues over (under) expenditures	36,877,477	(11,092,683)	(11,031,036)	6,613,001	4,965,946
Other financing sources (uses):					
Issuance of bonds	-	15,648,755	19,063,115	-	10,644,739
Premium on debt proceeds	-	-	-	-	361,837
Issuance of refunding bonds	-	-	-	24,393,868	-
Payments to escrow agent	-	-	-	(24,152,140)	-
Transfers in	729,759	1,696,702	927,197	994,616	504,783
Transfers out	(4,798,497)	(6,976,578)	(7,065,218)	(5,182,642)	(6,178,901)
Transfers to component units ¹	(31,462,089)	-	-	-	-
Total other financing sources (uses)	(35,530,827)	10,368,879	12,925,094	(3,946,298)	5,332,458
Net changes in fund balances	1,346,650	(723,804)	1,894,058	2,666,703	10,298,404
Fund balance – beginning, as restated²	21,234,998	22,581,648	21,869,384	23,821,442	26,488,145
Fund balance – ending	22,581,648	21,857,844	23,763,442	26,488,145	36,786,549

Source: Director of Financial Services, City of Lynchburg, Virginia.

¹For FY 2003 and prospectively, the General Fund transfer to Lynchburg City Schools (component unit) was reclassified as an education expenditure.

²Beginning fund balance restated as of June 30, 2003 and June 30, 2004. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004 and June 30, 2005.

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SCHOOL FUND
LAST FIVE FISCAL YEARS**

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues:					
Intergovernmental	\$ 34,896,406	\$ 35,813,533	\$ 63,603,079	\$ 67,442,823	\$ 71,207,508
Revenue from use of money & property	4,807	-	1,643	2,100	32,611
Charges for services	394,267	390,409	386,744	324,097	395,382
Miscellaneous	206,984	27,266,567	203,831	392,233	343,074
Total revenues	35,502,464	63,470,509	64,195,297	68,161,253	71,978,575
Expenditures:					
Education:					
Instruction	1,830,300	49,580,140	49,693,140	52,327,742	55,484,371
Administration, attendance, and health	48,509,600	1,741,567	2,062,680	2,128,927	2,424,016
Pupil transportation services	2,903,845	2,990,460	3,001,085	3,214,586	3,774,716
Operations and maintenance	6,571,305	7,349,258	7,575,110	7,976,868	8,890,256
Facilities	-	-	858,962	-	-
Capital outlay	2,994,244	2,183,590	1,471,364	2,698,587	1,956,743
Debt service: ¹					
Principal retirements	1,929,342	-	737,511	724,075	782,024
Interest payments	1,696,173	-	58,727	48,412	92,951
Total expenditures	66,434,809	63,845,015	65,458,579	69,119,197	73,405,077
Excess (deficiency) of revenues over expenditures	(30,932,345)	(374,506)	(1,263,282)	(957,944)	(1,426,502)
Other financing sources (uses):					
Capital lease proceeds	1,000,000	1,000,000	-	1,500,000	750,000
Operating transfers in (out)	(1,063,986)	(120,810)	-	-	-
Transfers from primary government ¹	31,162,089	-	-	-	-
Total other financing sources (uses)	31,098,103	879,190	-	1,500,000	750,000
Net change in fund balances	165,758	504,684	(1,263,282)	542,056	(676,502)
Fund balance – beginning²	2,188,087	2,353,845	2,260,909	997,627	1,539,683
Fund balance – ending	\$ 2,353,845	\$ 2,858,529	\$ 997,627	\$ 1,539,683	\$ 863,181

Source: Director of Financial Services, City of Lynchburg, Virginia.

¹For FY 2003 and prospectively, transfers in from primary government were reclassified as intergovernmental revenue. Also, debt service expenditures were reclassified as debt service for the primary government rather than the component unit.

²Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SOLID WASTE MANAGEMENT FUND
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
Operating revenues:					
Charges for services and other operating revenues	\$ 4,842,010	\$ 5,412,580	\$ 6,352,423	\$ 6,985,739	\$ 7,219,229
Total operating revenues	4,842,010	5,412,580	6,352,423	6,985,739	7,219,229
Operating expenses:²					
Personal services and benefits	-	-	-	1,704,262	1,780,192
Operation and maintenance	3,194,415	3,023,374	4,882,140	481,135	539,736
Supplies and materials	-	-	-	735,989	675,795
Administration	756,780	701,245	67,791	1,046,949	968,816
Landfill closure and postclosure care	(378,687)	245,102	348,643	147,355	(10,680)
Other charges	-	-	-	68,429	45,333
Depreciation	814,662	869,917	905,666	836,599	816,017
Total operating expenses	4,387,170	4,839,638	6,204,240	5,020,718	4,815,209
Operating income	454,840	572,942	148,183	1,965,021	2,404,020
Nonoperating revenues (expenses):					
Interest income	252,415	129,867	77,098	193,886	464,624
Governmental grants	198,878	191,039	201,836	199,638	204,134
Miscellaneous	42,182	46,678	113,451	67,665	43,347
Loss on disposition of assets	(1,498)	(190,589)	(95,876)	(49,893)	(14,922)
Interest on long-term debt	(407,047)	(334,840)	(327,127)	(303,528)	(301,809)
Total nonoperating revenues (expenses)	84,930	(157,845)	(30,618)	107,768	395,374
Income before contributions and transfers	539,770	415,097	117,565	2,072,789	2,799,394
Transfers in	-	135,371	284,282	732,529	732,529
Transfers out	(1,205,438)	-	-	(371,855)	(532,855)
Change in net assets	(665,668)	550,468	401,847	2,433,463	2,999,068
Total net assets – beginning, as restated¹	7,194,671	6,529,003	7,411,880	7,813,727	10,247,190
Ending net assets:					
Invested in capital assets, net of related debt	1,586,793	1,430,278	2,035,525	2,271,866	2,467,438
Restricted	6,229	-	-	-	-
Unrestricted	4,935,981	5,649,193	5,778,202	7,975,324	10,778,820
Total net assets – ending	\$ 6,529,003	\$ 7,079,471	\$ 7,813,727	\$ 10,247,190	\$ 13,246,258

Source: Director of Financial Services, City of Lynchburg, Virginia.

¹ Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

² Beginning in FY 2005, operation and maintenance expenses reported in more detail.

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER FUND
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
Operating revenues:					
Charges for services and other operating revenues	\$ 8,312,263	\$ 8,607,032	\$ 9,001,806	\$ 9,488,676	\$ 10,352,303
Total operating revenues	8,312,263	8,607,032	9,001,806	9,488,676	10,352,303
Operating expenses:²					
Personal services and benefits	-	-	-	2,830,609	2,953,729
Operation and maintenance	4,521,720	4,449,546	3,752,474	1,120,155	1,052,595
Supplies and materials	-	-	-	650,421	833,802
Administration	1,030,596	910,404	2,129,563	1,318,927	1,359,399
Other charges	-	-	-	48,269	68,637
Depreciation	1,609,740	1,575,929	1,952,385	1,743,936	1,771,749
Total operating expenses	7,162,056	6,935,879	7,834,422	7,712,317	8,039,911
Operating income	1,150,207	1,671,153	1,167,384	1,776,359	2,312,392
Nonoperating revenues (expenses):					
Interest income	151,034	69,732	57,640	123,527	264,029
Miscellaneous	19,695	54,449	17,052	26,984	3,902
Loss on disposition of assets	-	-	(238,743)	(8,422)	(17,683)
Interest on long-term debt	(858,389)	(875,982)	(971,932)	(963,889)	(1,135,500)
Total nonoperating revenues (expenses)	(687,660)	(751,801)	(1,135,983)	(821,800)	(885,252)
Income before contributions and transfers	462,547	919,352	31,401	954,559	1,427,140
Capital contributions	-	-	-	208,868	-
Transfers in	-	-	-	-	-
Transfers out	(401,998)	(452,628)	(161,000)	(147,123)	(182,846)
Change in net assets	60,549	466,724	(129,599)	1,016,304	1,244,294
Total net assets – beginning, as restated¹	30,757,634	30,818,183	31,108,943	30,979,344	31,995,648
Ending net assets:					
Invested in capital assets, net of related debt	25,031,692	25,514,601	24,348,833	25,767,489	27,805,400
Restricted	13,608	7,515	-	-	-
Unrestricted	5,772,883	5,762,791	6,630,511	6,228,159	5,434,542
Total net assets – ending	\$ 30,818,183	\$ 31,284,907	\$ 30,979,344	\$ 31,995,648	\$ 33,239,942

Source: Director of Financial Services, City of Lynchburg, Virginia.

¹ Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

² Beginning in FY 2005, operation and maintenance expenses reported in more detail.

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SEWER FUND
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
Operating revenues:					
Charges for services and other operating revenues	\$ 12,705,123	\$ 13,273,211	\$ 13,919,612	\$ 14,682,219	\$ 15,405,174
Total operating revenues	12,705,123	13,273,211	13,919,612	14,682,219	15,405,174
Operating expenses:²					
Personal services and benefits	-	-	-	1,894,076	1,919,958
Operation and maintenance	3,930,346	4,116,454	5,749,871	1,684,070	1,942,779
Supplies and materials	-	-	-	773,012	836,684
Administration	1,849,859	1,704,560	858,727	1,744,083	1,798,976
Other charges	-	-	-	23,902	40,887
Depreciation	3,156,787	3,312,342	3,662,382	3,777,969	3,954,820
Total operating expenses	8,936,992	9,133,356	10,270,980	9,897,112	10,494,104
Operating income	3,768,131	4,139,855	3,648,632	4,785,107	4,911,070
Nonoperating revenues (expenses):					
Interest income	421,275	744,837	200,511	248,236	456,342
Governmental grants	38,500	38,500	38,500	38,500	38,500
Miscellaneous	7,729	140,041	103,553	5,157	29,183
Gain (loss) on disposition of assets	(13,643)	(3,851)	2,080	(305,674)	(24,334)
Interest on long-term debt	(1,695,680)	(1,919,090)	(2,818,973)	(1,777,877)	(1,777,407)
Total nonoperating revenues (expenses)	(1,241,819)	(999,563)	(2,474,329)	(1,791,658)	(1,277,716)
Income before contributions and transfers	2,526,312	3,140,292	1,174,303	2,993,449	3,633,354
Capital contributions	6,371,216	3,867,125	4,711,890	3,851,205	1,534,561
Transfers out	(328,346)	(806,668)	(396,189)	(164,394)	(110,389)
Change in net assets	8,569,182	6,200,749	5,490,004	6,680,260	5,057,526
Total net assets – beginning, as restated¹	53,663,821	62,233,003	68,706,621	75,646,728	82,326,988
Ending net assets:					
Invested in net assets, net of related debt	58,225,166	57,318,081	63,406,634	69,171,836	73,629,641
Restricted	11,352	7,043,943	-	-	-
Unrestricted	3,996,485	4,071,728	10,789,991	13,155,152	13,754,873
Total net assets – ending	\$ 62,233,003	\$ 68,433,752	\$ 74,196,625	\$ 82,326,988	\$ 87,384,514

Source: Director of Financial Services, City of Lynchburg, Virginia.

¹ Beginning fund balance restated as of June 30, 2003 and June 30, 2004. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004 and June 30, 2005.

² Beginning in FY 2005, operation and maintenance expenses reported in more detail.

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
AIRPORT FUND
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
Operating revenues:					
Charges for services and other operating revenues	\$ 1,187,905	\$ 1,580,881	\$ 1,480,514	\$ 1,637,730	\$ 1,762,826
Intergovernmental	-	-	32,588	71,309	146,198
Total operating revenues	1,187,905	1,580,881	1,513,102	1,709,039	1,909,024
Operating expenses:²					
Personal services and benefits	-	-	-	1,009,935	795,052
Operation and maintenance	1,495,605	1,193,299	1,665,851	424,166	695,575
Supplies and materials	-	-	-	88,525	111,521
Administration	115,420	425,436	558,515	191,387	231,161
Other charges	-	-	-	19,803	17,678
Depreciation	1,406,045	1,397,321	1,492,120	1,546,691	1,545,339
Total operating expenses	3,017,070	3,016,056	3,716,486	3,280,507	3,396,326
Operating loss	(1,829,165)	(1,435,175)	(2,203,384)	(1,571,468)	(1,487,302)
Nonoperating revenues (expenses):					
Interest income	27,840	7,922	5,487	16,873	63,986
Governmental grants	134,947	8,532	-	1,726	26,969
Passenger facility charges	136,032	185,658	230,179	256,800	246,981
Miscellaneous	2,648	12,386	96,961	5,523	6,646
Loss on disposition of assets	-	-	(2,203)	-	-
Interest on long-term debt	(150,993)	(93,583)	(120,904)	(107,691)	(89,365)
Total nonoperating revenues (expenses)	150,474	120,915	209,520	173,231	255,217
Loss before contributions and transfers	(1,678,691)	(1,314,260)	(1,993,864)	(1,398,237)	(1,232,085)
Capital contributions	1,230,962	769,649	2,491,843	1,245,460	1,285,354
Transfers in	613,535	552,373	490,831	419,980	398,485
Change in net assets	165,806	7,762	988,810	267,203	451,754
Total net assets – beginning – as restated¹	21,865,042	22,030,848	22,033,667	23,022,477	23,289,680
Ending net assets:					
Invested in capital assets, net of related debt	21,197,318	21,326,437	22,231,939	22,022,931	21,640,700
Restricted	1,024,517	133,194	-	-	312,049
Unrestricted	(190,987)	578,979	790,538	1,266,749	1,788,685
Total net assets – ending	\$ 22,030,848	\$ 22,038,610	\$ 23,022,477	\$ 23,289,680	\$ 23,741,434

Source: Director of Financial Services, City of Lynchburg, Virginia.

¹ Beginning fund balance restated as of June 30, 2003. See Note 19, City of Lynchburg's Comprehensive Annual Financial Report, June 30, 2004.

² Beginning in FY 2005, operation and maintenance expenses reported in more detail.

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

CITY OF LYNCHBURG, VIRGINIA

TABLE 12

**Tax Revenues by Source, Governmental Funds,
Last Ten Fiscal Years**
(modified accrual basis of accounting)

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Real Estate	\$ 27,396,089	\$ 29,980,713	\$ 30,820,001	\$ 34,033,120	\$ 34,949,790	\$ 39,116,534
PSC Taxes	2,019,807	2,218,855	2,407,289	2,440,156	2,441,684	2,123,037
Personal Property Tax	12,303,662	10,006,956	10,197,416	10,643,759	12,337,162	18,513,544
Penalties & Interest	651,445	632,433	650,448	663,897	682,712	819,078
Sales & Use Tax	11,592,048	11,905,178	11,027,631	11,528,820	12,221,813	13,319,691
Utility Tax	6,429,867	6,183,639	6,826,740	6,892,926	7,087,224	6,870,716
Business License Tax	6,519,269	6,561,438	6,712,152	6,507,848	7,371,507	7,237,403
Franchise License Tax	636,371	805,383	545,624	570,921	574,721	584,346
Motor Vehicles Licenses	1,234,155	1,248,753	1,233,855	1,246,702	1,498,014	856,406
Bank Stock Taxes	1,010,280	1,074,795	647,929	590,123	545,221	598,733
Taxes on Recordation and Wills	226,798	309,720	359,561	414,598	561,009	786,799
Tobacco Taxes	607,991	553,676	652,156	1,083,020	1,087,358	972,337
Admission and Amusement Taxes	257,513	288,175	311,639	261,647	344,161	368,680
Hotel and Motel Room Taxes	1,357,862	1,277,686	1,275,664	1,363,085	1,392,866	1,491,943
Restaurant Food Taxes	6,661,317	6,921,931	6,984,195	7,561,387	8,666,119	9,382,349
Emergency Telephone Service Tax	-	-	1,114,213	978,995	972,043	946,241
Total General Government Tax Revenues	\$ 78,904,474	\$ 79,969,331	\$ 81,766,513	\$ 86,781,004	\$ 92,733,404	\$ 103,987,837

FY 2001 is the first year of reporting this information with a goal of future reporting to include ten (10) years.

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE REAL PROPERTY
LAST TEN FISCAL YEARS¹**

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Total Taxable Assessed Value²	Total Direct Tax Rate
1997	N/A	N/A	N/A	N/A	\$1.11
1998	\$ 1,543,357,925	\$ 522,672,050	\$ 234,819,100	\$ 2,300,849,075	\$1.11
1999	1,564,690,825	532,230,500	250,620,750	2,347,542,075	\$1.11
2000	1,620,521,425	574,270,350	262,396,250	2,457,188,025	\$1.11
2001	1,642,029,175	598,033,300	264,948,800	2,505,011,275	\$1.11
2002	1,825,363,885	656,406,200	269,264,050	2,751,034,135	\$1.11
2003	1,874,979,135	675,181,050	274,750,900	2,824,911,085	\$1.11
2004	2,036,969,900	811,633,000	276,950,200	3,125,553,100	\$1.11
2005	2,100,441,500	827,888,000	271,014,300	3,199,343,800	\$1.11
2006	2,391,089,200	911,430,500	266,308,500	3,568,828,200	\$1.11

Source: Real Estate Assessor's office of City of Lynchburg provided the information as net of taxable property value.

¹Assessed value is as of January 1 of the previous fiscal year.

²Excludes tax-exempt property.

CITY OF LYNCHBURG, VIRGINIA

TABLE 14

ASSESSED VALUE OF ALL TAXABLE PROPERTY¹
LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Real Estate ²	Personal Property ³	Machinery and Tools ²	Public Service Corporation		
				Real Estate	Personal Property	Total
1997	\$ 2,113,157,950	\$ 366,471,487	\$ 96,942,132	\$ 123,404,848	\$ 23,396,712	\$ 2,723,373,129
1998	2,290,471,575	376,396,894	103,346,245	134,128,601	24,168,112	2,928,511,427
1999	2,339,246,125	395,509,615	118,823,544	135,417,968	24,248,606	3,013,245,858
2000	2,449,420,625	411,292,462	131,817,754	147,404,173	26,207,912	3,166,142,926
2001	2,497,468,075	438,964,042	133,509,096	146,514,485	33,989,577	3,250,445,275
2002	2,743,591,485	419,024,367	106,329,586	163,282,375	33,883,382	3,466,111,195
2003	2,822,449,135	449,743,493	117,085,047	187,708,383	27,292,958	3,604,279,016
2004	3,116,578,400	458,996,765	125,639,040	185,826,527	28,684,711	3,915,725,443
2005	3,190,227,000	441,221,304	106,245,785	191,327,640	25,901,179	3,954,922,908
2006	3,558,304,600	464,880,808	113,654,354	166,819,698	21,891,230	4,325,550,690

Sources: Real Estate Assessor, and Commissioner of Revenue.

¹ Assessed value is as of January 1 of the previous fiscal year.

² Real estate and machinery and tools are assessed at 100% of fair market value.

³ Effective July 1, 1989, personal property is assessed at 100% of average trade-in value. Personal property is assessed at 100% of fair market value.

CITY OF LYNCHBURG, VIRGINIA

TABLE 15

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

	2006				1997			
	Taxpayer	Type of Business	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	R. R. Donnelley Printing Co.	Periodical Publication Printing	\$ 46,218,580	1	1.07 %	\$ 38,442,725	4	1.41 %
	River Ridge, Ltd.	Shopping Mall	44,768,400	2	1.03	29,841,059	6	1.10
	Areva NP Inc.	Nuclear Power Design & Fuel Fabrication	36,015,079	3	0.83	-	-	-
	Frito Lay, Inc.	Food Manufacturer	31,245,896	4	0.72	-	-	-
	First Colony Life Insurance Co.	Life Insurance	30,828,664	5	0.71	-	-	-
	J D N Realty Corporation, Inc.	Real Estate Company	20,028,300	6	0.46	-	-	-
	Bostic Development at Lynchburg, LLC	Real Estate Company	19,438,500	7	0.45	-	-	-
	CCRC, Inc.	Nursing Home/Assisted Living	17,671,300	8	0.41	34,227,446	5	1.26
	C B Fleet Company Inc.	Pharmathetical Industry	15,367,604	9	0.36	-	-	-
	Wal-Mart Real Estate Business Trust	Real Estate Company	12,757,200	10	0.29	-	-	-
	Ericsson-GE Mobile Communications	Mobile Communications	-	-	-	42,009,036	2	1.54
	Bell Atlantic-Virginia, Inc.	Utility	-	-	-	64,163,778	1	2.36
	American Electric Power	Utility	-	-	-	40,134,086	3	1.47
	B&W Nuclear Technology, Inc.	Nuclear Power Design & Fuel Fabrication	-	-	-	26,954,061	7	0.99
	Rock-Tenn Co. Mill Division, Inc.	Paperboard Manufacturer	-	-	-	9,367,700	10	0.34
	Commonwealth Gas Service, Inc.	Utility	-	-	-	18,270,104	8	0.67
	Limitorgue Corp.	Machine Casting	-	-	-	10,711,701	9	0.39
	Total		\$ 274,339,523		6.33 %	\$ 314,121,696		11.53 %
	Total Assessed Valuation:		\$ 4,325,550,690			\$ 2,723,373,129		

Source: City of Lynchburg, Real Estate Assessor and Commissioner of Revenue

CITY OF LYNCHBURG, VIRGINIA

TABLE 16

PROPERTY TAX LEVIES AND COLLECTIONS,
LAST TEN FISCAL YEARS

Fiscal Year	Tax Levied for the Fiscal Year ¹	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections ³	Total Collections to Date	
		Amount	Percentage of Levy ²		Amount	Percentage of Levy ²
1997	\$ 38,255,319	\$ 37,215,109	97.28%	790,508	\$ 38,005,617	99.35%
1998	41,219,739	39,793,041	96.54%	876,002	40,669,043	98.66%
1999	42,273,206	40,935,842	96.84%	743,598	41,679,440	98.60%
2000	44,505,082	43,175,341	97.01%	1,011,960	44,187,301	99.29%
2001	46,042,884	44,634,425	96.94%	1,112,034	45,746,459	99.36%
2002	48,710,267	47,306,624	97.12%	794,603	48,101,227	98.75%
2003	50,077,075	48,306,161	96.46%	1,200,837	49,506,998	98.86%
2004	54,001,611	52,095,333	96.47%	1,203,114	53,298,447	98.70%
2005	55,627,670	54,679,067	98.29%	1,154,204	55,833,271	100.37%
2006	65,231,705	56,114,836	86.02%	1,187,257	57,302,094	87.84%

¹Total tax levy is calculated based on the sum of Real Estate Tax and Personal Property Tax levies.

²These columns represent the amount and percentage on the tax levy within the respective tax year reporting period.

³This column represents delinquent taxes collected within the respective reporting period.

The increase in the FY 2006 levy is a result of the change in personal property tax billing to a two installment billing system. Both installments were levied in May 2006 for calendar year 2006 personal property tax.

However, only the first installment was due in June 2006 with the second installment due in December 2006.

Future fiscal years will include a May levy with installments due June 5 and December 5.

(1) Real property taxes are payable in four installments on or before November 15, January 15, March 15, and May 15 of the fiscal year. Personal property taxes are payable on or before November 15 if such property is titled within the City on or after January 1 of the tax year and before August 15 of the tax year. Taxes on personal property which are titled within the City after August 15 of the tax year are payable on or before February 15 of the following tax year. The tax levy and collections are exclusive of penalty and interest.

CITY OF LYNCHBURG, VIRGINIA

TABLE 17

PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(per \$100 of assessed valuation)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Real Estate										
Locally Assessed	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.11
Personal Property										
Locally Assessed	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.80	3.80	3.80
Machinery and Tools	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Automobiles, Trucks and Business Equipment	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.80	3.80	3.80
Public Service Corporations										
Equalized	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11
Automobiles and Trucks	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.80	3.80	3.80

Information was obtained from Official Statements related to bond issuance for June 27, 2000 and April 26, 2006.

CITY OF LYNCHBURG, VIRGINIA

TABLE 18

RATIOS OF OUTSTANDING DEBT BY TYPE,
LAST TEN FISCAL YEARS
(dollars in thousands)

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	
	General Obligation Bonds	Literary Bonds	General Obligation Notes	Note Payable	Capital Leases	General Obligation Bonds	General Obligation Notes	Public Utility Revenue Bonds		Capital Leases
1997	\$ 35,364	\$ 574	\$ -	\$ -	\$ 3,298	\$ 52,343	\$ -	\$ 24,242	\$ 709	\$ 116,530
1998	39,256	516	6,000	-	3,130	58,166	-	45,148	438	152,654
1999	43,525	458	-	-	2,961	59,308	-	52,681	226	159,159
2000	39,866	400	3,345	-	2,783	54,707	-	56,266	77	157,444
2001	42,519	341	3,345	-	2,595	55,521	-	57,500	-	161,821
2002	71,901	283	9,290	-	2,397	63,499	-	56,096	-	203,466
2003	85,006	225	610	-	2,187	64,141	-	52,973	-	205,142
2004	100,251	166	7,500	3,200	8,396	66,896	-	59,152	-	245,561
2005	93,990	127	7,500	3,200	7,747	61,935	-	63,526	-	238,025
2006	116,709	87	-	3,200	7,287	57,532	16,500	70,543	-	271,858

Note: Details regarding the City's outstanding debt can be found in the Notes to the financial statements.

CITY OF LYNCHBURG, VIRGINIA

TABLE 19

**RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING,
LAST TEN FISCAL YEARS**
(dollars in thousands, except per capita)

Fiscal Year	Population ^a	Assessed Valuation (in thousands)	Gross Bonded Debt ^b	Debt Payable From Enterprise Revenues ^b	Net Bonded Debt	Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1997	66,200	\$ 2,723,373	\$ 121,617	\$ 52,343	\$ 69,274	2.54%	\$ 1,046
1998	66,400	2,928,511	133,399	58,166	75,233	2.57%	1,133
1999	66,200	3,013,246	133,714	59,337	74,377	2.47%	1,124
2000	65,269	3,166,143	126,725	54,707	72,018	2.27%	1,103
2001	65,400	3,250,445	134,592	55,521	79,071	2.43%	1,209
2002	65,800	3,466,111	144,973	63,499	81,474	2.35%	1,238
2003	66,400	3,604,279	149,981	64,140	85,841	2.38%	1,293
2004	67,100	3,915,725	174,813	66,896	107,917	2.76%	1,608
2005	68,000	3,954,923	163,552	61,935	101,617	2.57%	1,494
2006	68,000	4,325,551	190,828	74,032	116,796	2.70%	1,718

Source: Director of Financial Services, City of Lynchburg, Virginia.

Note: Details regarding the City's outstanding debt can be found in the Notes to the financial statements.

^a Data from the Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia, for 1996-1999, and 2001-2005 Provisional Estimates; and, United States Bureau of the Census 2000. The 2006 population is an estimate based on 2005.

^b Excludes City of Lynchburg Public Utility Revenue Bonds.

CITY OF LYNCHBURG, VIRGINIA

TABLE 20

**LEGAL DEBT MARGIN INFORMATION,
LAST TEN FISCAL YEARS**
(dollars in thousands)

<u>Legal Debt Margin Calculation for Fiscal Year 2006</u>	
Real Property Assessed Value	\$ 3,558,304
Public Service Corporations Real Property Assessed Value	166,820
Total Real Property Assessed Value ^a	<u>3,725,124</u>
Debt limit (10% of assessed value)	372,512
Debt applicable to limit:	
Less: General Obligation Debt	(190,828)
Legal Debt Margin	<u><u>\$ 181,684</u></u>

<u>Description</u>	<u>Fiscal Years</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ 223,656	\$ 242,460	\$ 247,466	\$ 259,682	\$ 264,398	\$ 290,687	\$ 301,016	\$ 330,240	\$ 338,155	\$ 372,512
Total net debt applicable to limit	115,617	127,400	133,714	131,167	140,452	143,183	149,371	167,313	156,052	190,828
Legal debt margin	<u>\$ 108,039</u>	<u>\$ 115,060</u>	<u>\$ 113,752</u>	<u>\$ 128,515</u>	<u>\$ 123,946</u>	<u>\$ 147,504</u>	<u>\$ 151,645</u>	<u>\$ 162,927</u>	<u>\$ 182,103</u>	<u>\$ 181,684</u>
Total net debt applicable to the limit as a percentage of the debt limit	51.69%	52.54%	54.03%	50.51%	53.12%	49.26%	49.62%	50.66%	46.15%	51.23%

Note: The Constitution of Virginia, Article 7, Section 10(a) sets forth the City's legal debt limit at ten percent (10%) of its assessed valuation of real estate subject to taxation for the City's issuance of any bonds or other interest-bearing obligations. In August 1999, City Council adopted a Debt Management Policy that limits tax-supported debt to five percent (5%) of its assessed valuation of real estate subject to taxation.

^a See Table 14 for Real Property Assessed Value information.

CITY OF LYNCHBURG, VIRGINIA

TABLE 21

**PLEDGED REVENUE COVERAGE
LAST SIX FISCAL YEARS**

	2001	2002	2003	2004	2005	2006
Sewer Fund Operating Income	\$ 3,829,393	\$ 3,768,131	\$ 4,139,855	\$ 3,648,632	\$ 4,785,102	\$ 4,911,070
Plus:						
Depreciation & amortization	2,611,577	3,156,787	3,312,342	3,662,382	3,777,969	3,954,820
Interest income received	278,053	421,275	55,615	200,511	248,236	456,342
Capital contributions from members						
Regional Sewage Treatment Plant	284,411	597,353	785,015	272,336	383,901	384,747
Governmental grants & miscellaneous income	133,185	46,229	178,541	142,053	43,657	67,683
Net Revenue per Indenture¹	\$ 7,136,619	\$ 7,989,775	\$ 8,471,368	\$ 7,925,914	\$ 9,238,865	\$ 9,774,662
Debt Service						
General obligation bonds						
Principal	\$ 2,047,307	\$ 879,291	\$ 2,007,725	\$ 1,775,308	\$ 2,217,270	\$ 2,210,090
Interest	787,250	1,530,736	1,406,731	1,319,116	1,415,544	1,204,587
Total	2,834,557	2,410,027	3,414,456	3,094,424	3,632,814	3,414,677
Revenue bonds						
Principal	2,365,769	3,803,884	3,109,085	2,320,353	2,391,300	2,433,438
Interest	769,652	486,109	515,368	541,101	773,675	537,820
Total	3,135,421	4,289,993	3,624,453	2,861,454	3,164,975	2,971,258
Total Debt Service Principal and Interest	\$ 5,969,978	\$ 6,700,020	\$ 7,038,909	\$ 5,955,878	\$ 6,797,789	\$ 6,385,935
Debt Coverage	1.20	1.19	1.20	1.33	1.36	1.53

FY 2002 is the first year of reporting this information with the goal of future reporting to include ten (10) years.

¹ In August 1994, the Virginia Department of Environmental Quality (DEQ) issued the City a discharge permit and a special Consent Order which established a compliance schedule and project priorities for implementation of a Combined Sewer Overflow (CSO) Control Plan. The compliance schedule does not contain fixed dates for implementing the CSO Control Plan, but rather provides for implementation that reflects the City's financial capability. The debt coverage calculation above is utilized to determine the City's financial capability for Consent Order compliance based on a minimum debt coverage ratio of 1.2.

CITY OF LYNCHBURG, VIRGINIA

TABLE 22

DEMOGRAPHIC AND ECONOMIC STATISTICS,
LAST TEN CALENDAR YEARS

Fiscal Year	Population ¹	Personal Income ²	Per Capita Personal Income ³	Median Age ⁴	School Enrollment ⁵	Unemployment Rate ⁶
1997	66,200	\$ 1,409,001	\$ 21,284	33.1	9,506	4.3
1998	66,400	1,490,746	22,451	33.1	9,515	2.7
1999	66,200	1,551,927	23,443	33.1	9,387	2.2
2000	65,269	1,604,247	24,579	35.1	9,296	2.1
2001	65,400	1,646,576	25,177	35.1	9,212	4.5
2002	65,800	1,672,768	25,422	35.1	9,064	6.2
2003	66,400	1,739,215	26,193	35.1	8,955	6.1
2004	67,100	1,804,990	26,900	35.1	8,782	N/A
2005	68,000	1,878,568	27,626	35.1	8,625	5.2
2006	*	*	*	35.1	8,602	4.0

Source:

¹Weldon Cooper Center for Public Service, University of Virginia www.coopercenter.org

²U.S. Department of Commerce, Economic and Statistic Administration, Bureau of Economic Analysis

³Virginia Employment Commission (annual average) www.vaemploy.com/www.vec.virginia.gov/velma.virtuallmi.com

⁴United States Census - 2000

⁵Lynchburg City Schools. Enrollment as of September 30 for each year presented.

⁶Virginia Employment Commission & U.S. Department of Labor, Bureau of Labor Statistics, as of June 2006

* FY 2006 information unavailable

PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Centra Health, Inc.	4,500	1	14.80%	3,455	1	12.11%
Thomas Road Baptist Church, Jerry Falwell Ministries, Inc.	3,321	2	10.92%	1,240	5	4.35%
Areva ²	1,512	3	4.97%	1,600	3	5.61%
Lynchburg City Schools	1,500	4	4.93%	1,500	4	5.26%
City of Lynchburg, Virginia	1,309	5	4.30%	1,081	7	3.79%
Genworth Financial Inc. ¹	1,240	6	4.08%	1,200	6	4.21%
J. Crew Outfitters	800	7	2.63%	1,000	8	3.51%
Kroger, Inc.	619	8	2.04%	600	10	2.10%
Lynchburg College	599	9	1.97%	482	11	1.69%
Nationwide Insurance Company	585	10	1.92%	-	-	0.00%
R. R. Donnelley, Inc.	550	11	1.81%	803	9	2.81%
Ericsson	-		0.00%	2,800	2	9.81%
Total	16,535			15,761		

Employed Civilian Labor Force (June 2006) Lynchburg City - Virginia
Employment Commission

30,413

Employed Civilian Labor Force (June 1997) Lynchburg City - Virginia
Employment Commission

28,530

FY 2006 numbers are derived from Office of Economic Development,
City of Lynchburg, Virginia as of September 19, 2006.

FY 1997 numbers are derived from Official Statement for bond issuance March 12, 1998.

¹Formerly First Colony Life Insurance Co.

²Formerly Framatome

**FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM LAST EIGHT YEARS
LAST EIGHT FISCAL YEARS**

Functions/Programs	Full-time-Equivalent Employees as of June 30								
	Actual 1999	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Adopted 2006	
Primary government:									
General Government Administration									
Council Manager Offices	7	8	11	10	8	8	8	7	
City Assessor	11	11	11	11	11	11	13	13	
City Attorney	5	6	6	7	7	7	7	7	
Commissioner of Revenue	14	14	14	14	14	15	16	16	
Communications & Marketing	3	3	3	3	3	3	3	3	
Customer Service	3	3	3	3	3	3	2	2	
Financial Services	48	47	48	48	49	51	50	49	
Human Resources	8	9	9	10	10	10	12	11	
Information Technology	15	13	21	22	23	25	28	28	
Internal Audit	3	3	3	3	3	3	3	3	
Registrar and Electoral Board	2	2	2	2	2	2	2	2	
State Treasurer (State)	3	3	3	3	3	3	2	2	
Risk Management Fund	3	3	3	3	3	3	3	3	
Judicial Administration									
Circuit Court Clerk (State)	13	13	13	13	13	13	13	13	
Circuit Court Judges	2	2	2	2	2	2	2	2	
Commonwealth Attorney	14	14	27	21	15	15	15	16	
Sheriff	27	28	27	27	27	27	31	31	
Regional Juvenile Detention Center Fund	48	49	50	50	51	51	51	51	
Public Safety									
Police Department	170	170	181	187	187	192	195	195	
Emergency Communications	26	30	30	30	31	31	32	32	
Fire Department	183	185	184	182	183	182	183	180	
Public Works									
Public Works Administration	3	4	8	7	7	6	6	6	
Buildings & Grounds Maintenance	78	78	76	76	78	76	96	96	
Engineering Division	26	29	28	38	31	31	36	35	
Geographic Information System	0	0	0	0	0	3	3	3	
Street & Traffic Maintenance	57	51	50	40	40	40	42	42	
Health & Human Services	147	180	187	178	192	180	169	169	
Cultural and recreational	35	77	80	93	83	83	96	98	
Community Planning & Economic Development	33	46	33	31	32	33	34	33	
Fleet Services Fund	0	0	0	14	13	13	13	13	
Business -type activities:									
Airport Fund	15	N/A	21	20	20	20	21	18	
Water Fund	53	54	54	58	57	61	60	64	
Sewer Fund	43	50	50	45	44	44	47	47	
Solid Waste Fund	43	44	43	43	42	42	42	46	

Source: City Budget Office

FY 1999 is the first year of reporting this information with a goal of future reporting to include ten (10) years.

(1) FY 2006 actual will be available with the FY 2008 adopted budget.

**OPERATING INDICATORS BY FUNCTION/PROGRAM,
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Physical arrests	10,558	10,994	10,994	4,957	7,403	7,563	6,295	6,449	6,717	6,996
Traffic violations	8,681	13,997	16,616	16,395	12,496	15,190	8,759	9,628	11,477	10,926
Parking violations	12,166	11,925	12,444	9,440	8,519	9,930	8,113	7,308	6,806	6,306
EMS calls	N/A	N/A	N/A	N/A	N/A	11,864	14,552	12,197	12,782	13,032
Fire										
Number of calls answered (per month) ¹	420 (est)	400 (est)	465 (est)	504 (est)	528 (est)	602 (est)	619 (est)	227 (est)	328 (est)	463 (est)
Number of inspections conducted	1,418	521	968	1,250	1,436	1,425	1,430	1,280	1,089	293
Sanitation and Refuse										
Refuse collected (tons/day)	N/A	N/A	32.58	33.05	32.40	32.28	33.48	34.80	37.13	39.54
Recyclables collected (tons/day)	N/A	N/A	8.96	9.21	6.81	19.13	8.43	7.60	6.42	5.34
Airport										
Average number of passengers	183,378	182,448	173,858	167,060	151,003	107,455	92,779	109,940	128,811	124,093
Sewage										
Number of service connections	19,000	16,000	17,000	17,100	17,300	17,300	17,500	17,595	17,768	18,179
Average daily treatment in gallons	12 million	13 million	13 million	11 million	14 million	11 million	14 million	14 million	13 million	12 million
Maximum daily average capacity of treatment plant in gallons	22 million	22 million	22 million	22 million	22 million	22 million	22 million	22 million	22 million	22 million
Maximum daily capacity of treatment plant in gallons	44 million	44 million	44 million	44 million	44 million	44 million	44 million	44 million	44 million	44 million
Water										
Number of service connections	19,500	20,000	21,200	21,275	21,386	21,386	21,586	21,341	21,522	21,930
Average daily consumption of plant in gallons	12 million	12 million	12 million	12 million	12 million	12 million	11 million	11 million	10.5 million	11.1 million
Maximum daily capacity of plant in gallons	26 million	26 million	26 million	26 million	26 million	26 million	26 million	26 million	26 million	26 million

Source: Various city departments

¹Fire calls only, not EMS

CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM,
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Stations	2	1	1	1	1	1	1	1	1	1
Number of patrol units	fluctuates	55	55	43	45	45	53	53	53	54
Fire										
Stations	8	8	8	8	8	8	8	8	8	8
Refuse collection										
Collection Trucks	not specified	not specified	12	11	12	14	14	15	15	16
Highways and streets										
Street (miles)	375.00	355.00	355.00	360.00	312.00	314.00	365.95	454.80	412.00	415.00
Streetslights	9,100	9,279	9,309	9,334	9,444	10,150	10,200	10,200	10,200	10,758
Traffic signals	not specified	not specified	103	108	110	110	110	110	113	117
Culture and Recreation										
Community centers	8	8	8	7	7	7	7	7	7	7
Senior centers	-	-	-	-	-	-	-	-	-	1
Parks	10	11	12	12	12	16	16	16	17	17
Parks acreage ¹	778.5	770.5	831.5	831.5	835	835	835	835	838	848
Golf courses	-	-	-	-	-	-	-	-	-	-
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts ²	40	40	40	40	40	40	40	40	40	40
Gymnasiums	-	-	3	5	7	7	7	7	7	7
Sewage system										
Storm sewers (miles)	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped	not mapped
Water										
Fire hydrants	2,268	2,268	2,268	2,274	2,274	2,274	2,324	2,451	2,788	2,799
Storage capacity (thousands of gallons)	not specified	not specified	not specified	not specified	not specified	not specified	not specified	not specified	not specified	33,000
Sewer										
Average daily sewage treatment (MGD)	12.00	13.00	13.00	11.00	14.00	11.00	14.00	14.00	13.00	12.00
Maximum daily sewage treatment (MGD)	21.73	18.75	18.73	29.90	28.73	34.62	36.85	28.28	27.11	27.11
Transit – buses	29	29	29	29	29	29	29	29	29	29
Facility and service not included in the reporting entity:										
Education										
Number of elementary schools	13	13	13	12	12	11	10	11	11	11
Number of secondary schools	5	5	5	5	5	5	5	5	5	5
Number of community colleges	1	1	1	1	1	1	1	1	1	1
Number of universities or colleges	4	4	4	4	4	4	4	4	4	4
Hospitals										
Number of hospitals	2	2	2	2	2	2	2	2	2	2
Number of patient beds	573	788	788	788	769	636	554	554	554	587

¹Including Blackwater Creek Natural Area²10 Locations with a total of 40 courts – including schools

TABLE 27

**CITY OF LYNCHBURG, VIRGINIA
LYNCHBURG CITY SCHOOLS
SCHOOL BUILDINGS**

School	Grade	Site Size	Original Construction Date	Date of Additions	Maximum Capacity²	Optimum Capacity²	2006 Enrollment
<u>Secondary:</u>							
E.C. Glass High School	9-12	54.0 acres	1953	1966, 1981, 2004	1,950	1,666	1,599
Heritage High School	9-12	56.0 acres	1977	1992	2,025	1,721	1,153
Dunbar Middle School for Innovation	6-8	14.0 acres	1940	1949, 1957	1,000	800	625
Linkhorne Middle School	6-8	25.0 acres	1966	1976, 2002	1,225	1,041	779
Sandusky Middle School	6-8	29.6 acres	1966	1976	1,225	1,041	653
<u>Elementary:</u>							
Bass Elementary School	K-5	14.3 acres	1951	1963	500	315	248
Bedford Hills Elementary School	K-5	31.3 acres	1958	1992	625	550	470
Dearington Elementary School for Innovation	K-5	6.1 acres	1960	-	275	235	191
Heritage Elementary School	K-5	12.8 acres	1957	1961, 1993	550	500	349
Hutcherson Elementary School	Pre-K	7.5 acres	1960	-	325	285	-(¹)
Kizer Elementary School	Sp. Ed.	4.5 acres	1968	-	225	200	-(²)
Linkhorne Elementary School	K-5	10.0 acres	1964	1970, 1988	825	725	482
Paul Munro Elementary School	K-5	9.7 acres	1962	1990	550	506	285
R.S. Payne Elementary School	K-5	4.5 acres	1925	-	850	800	455
Perrymont Elementary School	K-5	33.0 acres	1954	1956, 1993	550	441	367
Sandusky Elementary School	K-5	10.0 acres	1964	1967, 1974	575	475	357
Sheffield Elementary School	K-5	12.8 acres	1957	1961, 2001	450	440	380
T.C. Miller Elementary School for Innovation	K-5	4.2 acres	1932	-	-	-	029
TOTAL							8,602

¹ Project REACH and HEADSTART not included in enrollment totals.

² Kizer Elementary School houses a regional program for students with disabilities.

Source: Superintendent of Schools, City of Lynchburg, Virginia.

TABLE 28

**CITY OF LYNCHBURG, VIRGINIA
LYNCHBURG CITY SCHOOLS
STUDENT ENROLLMENT, EMPLOYEES AND SCHOOLS BY FISCAL YEAR
LAST SEVEN YEARS**

Student Enrollment, Employees and Schools by Fiscal Year

<u>Description</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Elementary School Membership	4,366	4,230	4,049	3,968	3,910	3,840	3,793
Secondary School Membership	4,930	4,982	5,015	4,987	4,872	4,785	4,809
Total Membership	9,296	9,212	9,064	8,955	8,782	8,625	8,602
Teachers and Administrators ¹	798	811	807	782	762	753	776
Other Employees	490	475	494	474	467	471	470
Total Employees	1,288	1,286	1,301	1,256	1,229	1,224	1,246
Elementary Schools ²	12	12	12	11	11	11	11
Secondary Schools	5	5	5	5	5	5	5
Total Buildings	17	17	17	16	16	16	16

¹Includes only full-time equivalent positions funded through the operating budget.

²Does not include Armstrong, now being used for special education students.

Actual Average Daily Student Enrollment by Grade & Fiscal Year

(Based on September 30th, Actual Enrollment)

<u>Grade</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
K	769	669	655	674	700	666	670
1	696	755	661	628	651	628	655
2	764	685	716	664	608	647	634
3	702	719	649	689	641	583	628
4	729	693	695	633	690	630	593
5	706	709	673	680	620	686	613
6	746	713	729	686	689	658	707
7	704	719	707	697	661	680	664
8	740	705	730	737	697	660	687
9	895	825	869	904	856	857	823
10	665	790	757	730	740	772	726
11	579	627	666	676	656	627	669
12	<u>601</u>	<u>603</u>	<u>557</u>	<u>557</u>	<u>573</u>	<u>531</u>	<u>533</u>

Total 9,296 9,212 9,064 8,955 8,782 8,625 8,602

FY 2000 is the first year of reporting this information with a goal of future reporting to include ten (10) years.

Source: Superintendent of Schools, City of Lynchburg, Virginia.

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COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We have audited the basic financial statements of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The City's financial statements include the discretely presented component unit the Business Development Centre. Our audit did not include the operations of this component unit because this component unit engaged other auditors to perform their audit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1, 06-2, 06-3, and 06-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. **However, we believe the reportable conditions described above as items 06-1, 06-2, and 06-3 to be material weaknesses.** We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated October 10, 2006.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including certain provisions of the compliance matters described in the Summary of Compliance Matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings and questioned costs as Items 06-6 and 06-7. Certain immaterial instances of noncompliance were also noted and communicated to management of the City separately.**

This report is intended solely for the information of the audit committee, management, state and federal awarding agencies, and pass-through entities and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 10, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's financial statements include the operations of the Greater Lynchburg Transit Company, which received \$1,690,006 in federal awards which is not included in the schedule for the year ended June 30, 2006.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with *OMB Circular A-133*, and which are described in the accompanying schedule of findings and questioned costs as Items 06-5 and 06-6.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 10, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER
FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE PASSENGER FACILITY CHARGE PROGRAM AUDIT GUIDE**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

Compliance

We have audited the compliance of the City of Lynchburg, Virginia with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the "Guide"), issued by the Federal Aviation Administration, for its passenger facility program for the year ended June 30, 2006. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. **We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.**

This report is intended solely for the information of the audit committee, management, the Federal Aviation Administration, and City Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 10, 2006

**INDEPENDENT AUDITOR'S COMMENTS ON RESOLUTION
OF PRIOR YEAR AUDIT FINDINGS**

To the Members of the City Council and City Manager
City of Lynchburg, Virginia

We reviewed the prior year report during the course of this audit to determine if the City has implemented adequate corrective action with respect to previously reported audit findings. The prior year single audit disclosed the findings noted as 05-1 and 05-2 in the Schedule of Findings and Questioned Costs. Similar findings as those noted as 05-1 and 05-2 in the Summary Schedule of Prior Audit Findings were not noted for the year ended June 30, 2006.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 10, 2006

CITY OF LYNCHBURG, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2006

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Enhanced E-911 Service Taxes

State Agency Requirements

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

FEDERAL AVIATION ADMINISTRATION COMPLIANCE MATTERS

Passenger Facility Charge Audit Guide for Public Agencies

Requirements of laws and regulations required by the Federal Aviation Administration in relation to passenger facility charges.

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Four reportable conditions** relating to the audit of the financial statements were reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Reportable conditions 06-1, 06-2, and 06-3 **were determined to be material weaknesses**.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No reportable conditions** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **two audit findings relating to major programs**.
7. The programs tested as major programs are:

Name of Program	CFDA #
Title 1 – Educationally Deprived Children	84.010
Community Development Block Grant Program	14.218
EPA Grant	66.606
TANF Block Grants	93.558
Child Care Assistance	93.575
Child Care Development Fund	93.596
National School Breakfast Program	10.553
National School Lunch Program	10.555
Revolving Loan	66.458
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260

8. The **threshold for** distinguishing Type A and B programs was **\$779,000**.
9. The City of Lynchburg was **not** determined to be a **low-risk auditee**.
10. Passenger Facility Charge Program:
 - a. Material weakness identified? No
 - b. Reportable condition not considered to be a material weakness? None reported
 - c. Noncompliance material to the passenger facility charge program? No
 - d. Type of auditor's report on compliance for major programs. Unqualified
 - e. Any audit findings disclosed. No

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

06-1: School Finance Department Staffing

Condition:

We noted significant deficiencies in the accounting and reporting functions at Lynchburg City Schools which resulted in material adjustments.

Recommendation:

We suggest management review staffing and training levels, including a review of job descriptions and responsibilities within the finance department. We also suggest that this process be followed with a corrective action plan.

Management Response:

During the FY 2006 year, Lynchburg City Schools (LCS) Department for Finance experienced employee turnover in two key positions. The LCS Finance Department was not fully staffed until September 18, 2006. The vacancy in the key positions contributed to the deficiencies in the accounting and reporting functions. Management has reviewed and revised job descriptions and responsibilities within the LCS Finance Department to ensure that the accounting and reporting functions are performed accurately.

06-2: School Capital Assets

Condition:

The detailed capital asset listings did not agree to the beginning or ending balances in the capital asset summary records. Significant adjustments were necessary to properly account for capital assets purchased or disposed of. Capital asset records were not compared to listings kept in the transportation department.

Recommendation:

We recommend that management consider either the purchase of depreciation software or outsourcing the maintenance of the depreciation schedules and that listings be reconciled at least annually to records in other departments.

Management Response:

The responsibility for the maintenance and reconciliation of depreciation schedules has been assigned to a staff member in the Lynchburg City Schools Finance Department. The depreciation schedules will be reconciled with the Transportation Department in January and July of each year.

CITY OF LYNCHBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS

06-3: School VRS Payments:

Condition:

Checks to the Virginia Retirement System (VRS) are being prepared automatically when payroll is initially prepared, however these checks are frequently voided and reissued for small changes. In some cases we noted payments were voided and reissued multiple times for a given month. We also noted inconsistencies in the liability accounts used for posting and clearing these payables, resulting in significant errors in payable balances.

Recommendation:

Steps should be taken to ensure that checks are normally issued only once and one liability account should be used to accumulate and clear the VRS obligation.

Management Response:

The procedure for creating the check to the Virginia Retirement System has changed. The check is no longer automatically created when payroll is prepared. The amount of the check is determined from the payroll generation by the Benefits Coordinator and reviewed by the LCS Finance Director. This new procedure eliminates the need to void and re-issue the check due to an incorrect check amount. Additionally, one liability account is used to accumulate and clear the VRS obligation.

06-4: School Payroll Controls

Condition:

Payroll accountants have system access privileges to set up new employees and alter information on existing employees. Furthermore, these personnel occasionally have possession of signed paychecks.

Recommendation:

Management should consider elimination of these conflicting duties or implementation of effective compensating controls. Signed paychecks should not be returned to those involved in the payroll process.

Management Response:

Conflicting duties have been eliminated through controls implemented in the payroll system. Staff in the LCS Finance Department have inquiry only access to payroll information. The Personnel office has access to set up new employees in the payroll system. Additionally, payroll checks for the staff not participating in direct deposit are distributed by the receptionist not by payroll staff.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

C. FINDINGS AND QUESTIONED COSTS – PASSENGER FACILITY CHARGE PROGRAM

None.

D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Major Federal Award Programs Compliance Findings

06-5: Child Nutrition Cluster – CFDA 10.553 & 10.555

Condition:

We noted one instance out of six where the number of meals reported for reimbursement did not agree to the meal count sheets as recorded at the individual schools.

Recommendation:

Procedures should be implemented to ensure meal count reports submitted for reimbursement are properly reviewed and agreed to supporting meal count sheets.

Management Response:

Procedures are in place to ensure meal count reports submitted for reimbursement agree to supporting meal count sheets. The monthly Daily Meal Claim Record received from each school is calculated on an Excel spreadsheet generated by the point of sale software program in each school cafeteria. The spreadsheet tallies meal counts both across the sheet as well as down each column to provide monthly totals. Before these monthly totals are submitted for reimbursement, the Coordinator for School Nutrition adds them across the bottom of each sheet and does a match to the vertical total. If there is a discrepancy, all columns are added and checked to find the error. If an error is detected, she will notify the cashier to recheck her report and make necessary corrections. There were only two instances during the 05-06 school year in which the computer program at a particular school experienced a glitch and did not report correctly tallied meal counts. A technician was called and the problem was corrected. Before any claims are submitted online for reimbursement, we are confident that we have arrived at the correct meal count. We will continue to monitor this closely and also add written documentation if there were any discrepancies between the supporting meal count sheet and the claim submitted for reimbursement, including what steps were taken to reconcile the discrepancy.

06-6: Workforce Investment Act Cluster – CFDA 17.258, 17.259, & 17.260

Condition:

During the course of our audit we became aware that the City is a pass-through entity for certain federal funds. As a result, the City is required to perform subrecipient monitoring of compliance at a subgrantee of this program, however, the City did not perform this monitoring. This subgrantee accounts for the entire amount of the federal award expended in the current year.

CITY OF LYNCHBURG, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

**D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)**

Major Federal Award Programs Compliance Findings (Continued)

06-6: Workforce Investment Act Cluster – CFDA 17.258, 17.259, & 17.260 (Continued)

Recommendation:

Subrecipient monitoring procedures should be implemented at the City to monitor and ensure compliance with material compliance requirements applicable to the federal award program at all subgrantees.

Management's Response:

The City is implementing procedures to monitor and ensure compliance with all requirements applicable to the federal award program.

E. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

Commonwealth of Virginia Compliance Findings

06-7: Timely Disclosure Statement Submission

Condition:

We noted five out of seventy-four City official disclosure statements that were not filed by the January 15th required submission deadline as set forth by the *Code*.

Recommendation:

Procedures should be implemented to ensure City officials submit disclosure statements timely.

Management Response:

A review of the five statements that were filed late reveal that one was filed late due to a late appointment to the Zoning Appeals Board and late notification of the need to file. Two were filed one day late. The remaining two were filed approximately one week late.

Procedures are currently in place to send out an initial notification, first reminder notice and second reminder notice. Failure to respond to the notices results in phone calls to the individuals until the disclosure statements are filed.

CITY OF LYNCHBURG, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

E. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

Commonwealth of Virginia Compliance Findings (Continued)

06-8: EBT Card Authorization Signatures

Condition:

We noted one instance out of ten files reviewed in which the Vault Card EBT Issuance form was not properly signed when completed by the case worker.

Recommendation:

Procedures should be implemented to ensure that all Vault Card EBT issuance forms are properly signed.

Management Response:

Management agrees that all forms should be properly signed by the recipient of the card as well as the issuance worker. Over the next 30 days we will review the card issuance policy with all staff stressing the importance of properly signed documents.

CITY OF LYNCHBURG, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2006

Auditor
Reference No.

05-1: Child Nutrition Cluster – CFDA 10.553 & 10.555

Condition:

One student out of six tested was determined to be ineligible per the School's annual certification review, but such determination was not changed in the student's records, resulting in an ineligible student receiving benefits.

Current Status:

Finding was not detected for the year ended June 30, 2006

05-2: Community Development Block Grant – CFDA 14.218

Condition:

Community Development Block Grant funds were not expended within the specified period of time.

Current Status:

Finding was not detected for the year ended June 30, 2006